SKETCH

OF

AMERICAN FINANCES

1789—1835

BY

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PREFACE.

How we may best manage, and most speedily pay off, our great public debt, will practically be a vital question in American politics for a long time to come. Every year its importance is, through the medium of taxation and surplus revenue, brought home to all classes and to every species of industry; while at the same time any lack of wisdom or experience in dealing with this central issue is sure to be felt in the wide circumference of the rest of our public questions. A similar inquiry held a dominant place in our national councils from the year 1789, the date of the present Constitution, down to the year 1835. The financial history of this period is well worth special study, because of the signal ability and sagacity by which the Government brought its difficult problem to a successful

issue. In dealing with our existing debt, it may therefore be not without utility to trace, in a short review, the growth of our national experience in finance during that time, whether as manifested in its prevailing ideas, or as embodied in actual legislation.

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AMERICAN FINANCES.

1789-1835.

CHAPTER I.

SETTLEMENT OF THE REVOLUTIONARY WAR DEBT.

Our present Constitution owes its origin to the financial embarrassments of the Government formed under the Articles of Confederation. That Government had to depend for its revenue upon the States, by making requisitions upon them in their integral and sovereign capacity. Under this system, however, there existed no power to enforce these requisitions; and hence when the States, sometimes by default and sometimes by refusal, failed to pay their respective quotas into the common treasury, the Government found itself reduced to bankruptcy. There were no funds for its own support; the interest upon the loans which had been contracted both at home and abroad on account of the war of

the Revolution remained unpaid; and fresh infractions of treaty, and financial obligations, were daily bringing deeper humiliation upon the country.

To devise some remedy for this most disastrous condition of affairs, delegates from all the States met in convention, in Philadelphia, in the year 1787. This body, as was natural under the circumstances, was at the outset solely intent upon ingrafting needed power and vitality upon the existing Articles of Confederation. Their deliberations, however, carried them beyond this original purpose, and resulted finally in their framing a new scheme of government altogether, — the Constitution of the United States. This Constitution was ratified by the States, and went into operation on the 4th of March, 1789. Ample powers were, in view of recent experience, conferred upon the new Government, both to secure its own maintenance, and to provide for the public credit.

Among the provisions of this Constitution was one to the effect that all debts for which the United States had become liable as a confederation, as well as every agreement entered

into by them, were now made valid, by express terms, against the United States.

The total amount which had thus been formally assumed as public debt, was estimated, with principal and arrearages of interest together, to reach the sum of $54,124,464.56, and became thenceforth distinguished and known under the names of foreign debt and domestic debt. The foreign debt summed up $11,710,378.62, and resolved itself into (1) loans obtained from private lenders in Holland, (2) sums of money furnished from time to time by the King of France, and (3) a small amount due to Spain.

Our country as a borrowing power (under the guaranty, as will be hereafter seen, of the King of France) was first introduced into Holland in the year 1781. John Adams, American ambassador at the Hague, had received general authority to borrow any sums required for necessary expenses, and succeeded by his wise management and perseverance in obtaining loans amounting to nine million florins, equal to $3,600,000. Four separate loans of this description were negotiated by him, — the first in the year 1782, and the last in 1788. The

rate of interest to be paid on this money was fixed nominally at four and five per cent per annum, but the premiums and gratifications exacted by the lenders ran it up in reality as high as seven per cent. The payment of the interest went on quite regularly, the money coming directly out of the proceeds of the loans. Indeed, the last two loans, each for one million florins, were expressly obtained for this purpose, and were so pledged. Meanwhile, no part of the principal had been paid, the first instalment thereon not falling due until the year 1793. These several loans had been made reimbursable, in equal payments, within fifteen years from date, the first payment to be made in the eleventh year.

The French debt differed in many respects from the debt owing in Holland. In addition to the support of his arms during the war of independence, the French king had also rendered important pecuniary assistance. Between the years 1778 and 1783, in addition to a subsidy of six million livres, he had granted under the title of loans thirty-four million livres, equal to $6,296,296. The amount last mentioned was divided into three parts. The first part

consisted of loans made previously to the 16th of July, 1782, amounting in all to eighteen million livres. By a contract between the two countries in relation to these loans, all arrears of interest up to that date, together with any interest that might accrue until the conclusion of a treaty of peace, were made a present to the United States in token of the king's friendship. The principal was made payable, with five per cent interest per annum, in ready money in twelve equal parts, and at the royal treasury in Paris, the first payment to commence from the third year after a peace with Great Britain. The second part was a loan, made on the 5th of November, 1781, of five millions of florins, computed by agreement at ten millions of livres. Strictly speaking, this was a loan by the States-General of the United Provinces of the Netherlands to the French king, but made in favor of the United States, the king undertaking to guarantee its payment. This debt was to be reimbursed in Paris, in ten equal payments at four per cent per annum. And in order that the king of France might be enabled to fulfil his own obligations in regard to it, the first of these payments was made due

on the 5th of November, 1787. The third part was also a single loan of six millions of livres, bearing interest at five per cent. Its repayment was fixed within the period 1797–1802, both years inclusive.

These engagements with France the old Congress had found itself unable to fulfil; although prompt payment, owing to the low condition of that country's finances in 1787, when the first instalments of the principal of the debt became due, was especially necessary. The arrears accumulating after this fashion swelled the amount of principal and interest due to France at the close of the year 1789 to nearly three millions of dollars. As there was no abatement in their financial difficulties, the double motive of gratitude and justice urged the United States to begin without delay to reimburse the French debt.

Negotiations were accordingly opened at Amsterdam and Antwerp for the purpose of borrowing money upon the credit of the United States. At first some popular objections were raised against negotiating new loans abroad; but any other course, if not altogether impracticable, seemed at least to be unwise. The

supply of money at home was too limited for the pressing needs of the Government, either with respect to amount, or to the length of time for which it could be borrowed. Even had the home market been able to furnish the funds, the drain upon its cash for remittance to France would have been ruinous. Moreover, either plan amounted to the same thing in the end; as the money of foreigners would have been brought over here to be subscribed to a domestic loan, or to be invested in the stock. This would have induced a higher rate of interest; and by this means the specie of the country, which did not at the time exceed five million dollars, would have been carried away all the faster.

Eight loans were obtained in Holland, amounting in all to 23,500,000 florins, which, at forty cents per florin (the treasury-rate of exchange), gave the sum of $9,400,000. The first of these loans was effected on Feb. 1, 1790, and the final one on the 10th of April, 1794. The highest rate of interest, counting in extra charges along with the nominal interest, was a fraction more than five and a half per cent; while the lowest actual interest was a

fraction less than four and a half per cent. These conditions were quite as favorable as granted, at the time, to any other borrowing power. The proceeds of the loans here spoken of were applied to paying the arrears of interest on the foreign debt, together with the instalments of the principal then due; and also in providing for some other engagements and contracts respecting it which availed to the public benefit.

Before, however, these financial dispositions were fully matured and settled, more than a year had been suffered to elapse; so that on the 4th of August, 1790, the time when the laws were enacted for carrying them out, the arrears of principal and interest had largely increased. Happily, matters were being accelerated in the interim by the sagacious action of Mr. William Short, the financial agent of the United States in Europe. Foreseeing the wants of the Government, that gentleman had, in the month of February, previous to the passage of the Funding Act, entered into a provisional agreement for a loan of three millions of florins in Amsterdam. This loan was accepted on account of the Government on the 25th of

August following, and out of it a first payment was made to France early in December. Other payments succeeded each other at short intervals, so that by September, 1792, accounts were adjusted between the two countries. At that time, the policy began to be adopted of paying the instalments in advance, as such a course, it was believed, would tend to revive the friendly feelings of France, already weakened by previous breaches of faith. But, from want of confidence in the stability of that Government, this policy was soon abandoned. The regular payments continued to be made promptly up to the 31st of December, 1795. The balance of the debt then remaining unpaid was, under the inducement of an increase of interest, exchanged for domestic securities, created for the purpose, at the rate of 18.15 cents per livre, the par value of the precious metals as agreed upon between the two countries.

Under this arrangement, certificates of domestic debt were issued by the United States, in favor of an agent duly authorized by the Committee of Public Safety of the National Convention of France, to the amount of $2,024,900; $1,848,900 of this sum bore interest at five and

a half per cent, and the remaining $176,000 four and a half per cent. In this final settlement was also included a loan of one million livres from the farmers-general, obtained in the year 1777. Thus was closed the account with the Republic of France. The French debt, by means of re-loans, had now been transferred to Amsterdam and the United States.

Out of the proceeds of the Dutch loans was likewise discharged the small debt due to Spain, as also the claims for pay and service of the foreign officers who had enlisted in the army during the late war, amounting to $186,988.23. The Spanish debt originated in this wise: in the year 1780, Congress, then under the pressure of immediate necessity, had sold bills of exchange on the American minister at Madrid to the amount of five hundred thousand dollars. It was hoped that these bills, which were at long dates, would be met by a loan from Spain. On their presentation for payment, however, the Spanish court refused to advance the money; and only after repeated solicitation was that government finally persuaded to grant a loan of $174,011, to be payable within three years, at five per cent interest. This debt was

paid in August, 1793, at which time it had amounted, with arrears of interest, to something more than $268,000.

The management of the domestic debt gave rise to more serious difficulties than the foreign debt. On the demise of the late Government, this debt amounted to $42,414,085.94. Out of this total, $27,383,917.74 were represented by certificates which had been issued on account of the principal of the debt; $13,030,168.20, in indents, went to sum up the arrears of interest as computed to Dec. 31, 1790; and two million dollars was the estimate formed of the unliquidated portion, consisting chiefly of Continental bills of credit. The capital of the debt was in the nature of an annuity at six per cent per annum, redeemable at the pleasure of the Government by the payment of the principal. As to the arrears of interest, which bore so large a proportion to the principal of the debt, any immediate payment was not at all practicable. While the very nature of these claims made them of necessity a subject for construction, yet they were entitled to the same consideration as was given to the principal.

The ratification of the new Constitution by a

number of the States sufficient to secure an organized government, exerted a timely and restorative influence upon the public credit. The belief became general that now some effective provision would be made for the payment of the domestic debt. That it was just and valid had never been questioned. It was designated "the price of liberty," and the good faith and honor of the country had been repeatedly and solemnly pledged for its payment. The late Government had made, it is true, earnest and laudable efforts towards fulfilling its obligations; but these efforts were defeated by the more urgent necessities of the war, as well as by its own inexperience in finance, not to speak of the embarrassments of a defective constitution during the last seven years of its existence. Now that the new Government had competent powers to command the resources of the whole country, the confidence of creditors began to revive. And this confidence that some action would be taken in their behalf, received new strength and sanction on the adoption by the House of Representatives, at the close of the first session of Congress in September, 1789, of a resolution declaring that

they considered an adequate provision for the support of the public credit to be a matter of high importance to the national honor and prosperity. A rapid increase took place in the market value of the public securities. They had been selling for no more than fifteen and twenty cents upon their nominal value. But from January, 1789, to November of the same year, they rose thirty-three and a third per cent; and by the following January they had risen fifty per cent more.

On the 4th of August, 1790, was passed an Act known as the Funding Act. This was a plan for remodelling the domestic debt, and it grew out of the absolute necessity of bringing the Government's liabilities within reach of its probable income. Were the Government, with its current expenses, — always liable to increase from contingent demands, — to attempt to pay the interest of the entire mass of the public debt on the basis contracted for, it would have to control a revenue of not less than five millions of dollars annually. To undertake to secure this sum by means of taxation, would, it was apprehended, put a very great strain on the nascent capacity of the country, as its

ability to bear taxation was as yet practically untried. In lieu, therefore, of the original basis contracted for, a provision for the debt was made under the Funding Act on a basis calculated at four per cent. The measure was an appeal to the intelligence of the creditors, and to their interest as well, in favor of an arrangement which was considered to be based upon a real and fair equivalent. This re-organization of the old debt made it easier to be provided for, while at the same time it offered unquestionable security for the strict fulfilment of the new engagements.

Under the provisions of the Funding Act, a loan was now opened for the full amount of the domestic debt, the subscriptions thereto being made payable in the certificates that had been previously issued for it. For every sum subscribed in the principal of the debt, two certificates were issued, — one of them for an amount equal to two-thirds of the subscription, bearing interest (payable quarterly) at the rate of six per cent per annum from the 1st of January, 1791; the other for the remaining third of the sum, bearing the same interest after the year 1800. The debt in this new shape was subject,

upon the accruing of the interest, to redemption in such payments as were not to exceed in a single year, on account of both principal and interest, the proportion of eight dollars upon a hundred dollars. The arrears of interest, computed to the last day of December, 1790, were fundable, dollar for dollar, into a stock redeemable at the pleasure of the Government, and bore interest at three per cent per annum, payable quarterly from the 1st of January, 1791.

Lest it might be imputed that this new measure acted upon the necessities of the creditors, and so carried with it an appearance of coercing them, the change in the form of the debt was left to their own choice. To this end, a solemn legislative declaration was made in protection of the rights of any creditors who did not think proper to subscribe to the new loan, and which stated that those rights should in no wise be altered, abridged, or impaired, and that their contracts were to remain in full force and validity. An appropriation was made for paying the non-subscribing creditors an interest on their respective claims equal to the interest payable to the subscribing creditors. The sole condition attached to their payment

was the return of the old certificates in exchange for new ones of like tenor, or their registration. This was necessary as a protection against fraud, and also as a help towards ascertaining as far as possible the extent of the public debt. The option of separating the arrears of interest from the principal, and funding them at three per cent, was also given the creditors. But it was well understood that no more was to be done for the non-subscribers than was positively due to good faith.

Under the new form now assumed by the public debt, the Government relinquished the right of redeeming it at pleasure, which it could previously use to its advantage whenever there was a fall in the market-rate of interest. This surrender served to give to the debt a more fixed character. Again, instead of the interest being paid, as originally provided, at the end of the year, and only at the treasury, it was now to be paid in quarterly payments and at thirteen different places, which made it equivalent to 6.15 per cent per annum in lieu of the stipulated rate of six per cent. Furthermore, by the original contract, only an annual provision for the interest was required; whereas the Funding

Act appropriated and pledged funds for both the interest and the principal, and this appropriation was made co-extensive with the duration of the debt.

Considerable intrinsic value now accrued to the public debt in its new form from these stipulations. Nor is this statement negatived by the fact of the reduction of the interest from six per cent to four per cent, — a reduction which was considered, at the time, reasonable and necessary, inasmuch as it was made on a conscientious estimate of the resources of the country. This estimate, we now know, was far below the value of their subsequent growth and expansion. And it is this growth in the national finances beyond the most sanguine expectations, which might hinder the measure, without adverting to this fact, from being appreciated in our day at its full value. The very change in the mode of appropriation formed of itself a valuable consideration, and this was evidenced at the time by the opposition of a strong party to the funding of the debt upon terms so advantageous to the creditors as those offered. This party contended that a discrimination should be made between the

possessors of the certificates by purchase, and the original holders; as the latter, under the pressure of need, had had to sell their certificates at a very great discount. The permanent had this advantage over the annual provision; namely, that once it was made, it was absolutely safe, at least until all the three departments of the Government should concur in revoking the solemn pledge given to the creditors. The annual provision, on the other hand, was always liable to be defeated by the prevailing passions, prejudices, or intrigues of a majority of but a single branch of the Government. Some of the creditors were at first for insisting on better terms, and in a memorial to Congress entered their protest against the commutation as a breach of faith, particularly in view of the favor shown to the foreign creditors. Nevertheless, seeing, on the whole, that there was now secured to them a permanent and reliable settlement of their claims, all agreed to accept the modification proposed.

The books for receiving subscriptions were opened in all the States on the 1st of October, 1790, and were closed on the last day of the year 1797. During this interval, nearly the

whole of the old debt was subscribed to the new loan : there were a few, however, who still held back from funding their certificates, although they had registered them. All evidences of debt presented after the loan was closed, and previous to the 12th of June, 1799, were paid in specie, at their nominal value if registered, and at their market value if not registered. All that failed to be presented within this defined period, became, by the fact, forever barred from settlement or allowance. The total amount of domestic debt that was funded was $41,963,561.98 ; $19,622,505.52 of this amount were in six-per-cent stock; $9,416,382.92 in deferred stock ; and $12,924,673.54 in three-per-cent stock. The difference between the amount actually funded and the amount at first computed to be outstanding, was attributable not so much to the Act of Limitation as to the loss or casual destruction of certificates throughout a period of more than twenty years. To this chief cause may be added the errors made in the estimates themselves ; as, for instance, in the old emission bills, which, while computed at forty for one, were actually funded at the rate of one hundred for one. Many loan-certificates,

also, which were thought to have been already issued for the public service, were subsequently returned to the Treasury, and cancelled.

An important feature in the general plan for re-organizing the public debt was the assumption by the National Government of the debts incurred by the States in support of the war, and which in their nature and of right were properly a charge against the United States. The Congress which assembled at the commencement of the war of independence, possessing no defined powers of government, had no right to tax the States. However, when an appeal was made to them, the States furnished money and supplies according to their ability, considering these contributions as loans or advances for the common weal. By the adoption of the Articles of Confederation in the year 1781, no practical change was made in the mode of carrying on the war. The public contracts still continued to be turned over to the several States for settlement, a course which was not only a relief, but a necessity, to a government with an empty treasury. The main obligations thus undertaken by the States were that they should settle the arrears of pay of their respec-

tive lines of the army, as well as the claims of their own citizens, many of whom already held the certificates of the commissioners or other officers of the United States for supplies furnished, or services rendered. Now, these obligations the States either paid in their own bills of credit, or substituted their own State certificates for the certificates of the United States. Such creditors, therefore, not only had never been asked to consent to this transfer of their claims from the United States, but had besides received no actual payment, but only promises of payment, which remained still unredeemed. Here arose a conflict between justice and generosity. Each State from the first was bound for its just proportion of the expenses of the war: any thing advanced in excess of this, of course, gave the State a claim to remuneration. Until, however, the extent of these excesses had been ascertained, the United States were not strictly obligated to assume their indebtedness. But, on the other hand, it would have been impolitic, and even invidious, to make a discrimination between equally meritorious public creditors, by providing for one class out of the ample national resources, and leaving the

other to look for payment to the States, which were already overburdened with debts. Under these circumstances, the debts of the individual States were assumed by Congress.

The debts of all the States taken together were found to amount to about $21,500,000. For the full sum, a loan was opened at the same time and the same places as already prescribed for the domestic debt ; and to each State was assigned a quota of it about equal to its estimated and still unpaid war-debt. The subscriptions were paid indiscriminately in the certificates of the principal and of the interest (this latter computed to the 31st of December, 1791) of the debts of the respective States, issued prior to January, 1790, for services or supplies furnished for the prosecution of the late war. Each person subscribing received three certificates, — one for a sum equal to four-ninths of the subscribed sum, with interest at six per cent per annum from the 1st of January, 1792 ; another for two-ninths of the subscribed sum, to bear interest after the year 1800, at six per cent ; and the third certificate for the remaining three-ninths, bearing an interest of three per cent from the first of January, 1792.

The interest on these several certificates was payable in the same manner, and the principal was made subject to a like mode of redemption, as the correspondent stock created by the loan funding the domestic debt.

The subscriptions to the funded assumed debt were closed on the 1st of March, 1793. Out of the total amount which had been assigned to the States, only $18,271,814.74 had been subscribed. This difference is chiefly accounted for by the fact that the sums assumed for some of the States were in excess of the actual amount of their outstanding debts. In some instances, too, the debt was of such a kind as to preclude its being accepted, — in the case, for example, of certificates issued after the 1st of January, 1790. A number of persons, besides, not noting the limitation of time for receiving subscriptions, or from entire ignorance of it, lost thereby the opportunity of subscribing.

The debts of the States did not, however, furnish any criterion of their relative contributions to the war. Some of them, escaping more than others the ravages of actual warfare, had therefore been able, by means of current taxation and their ample resources, to meet their expenses,

and reduce their debt; while those which had suffered, and were therefore forced to make all the heavier drafts upon their credit, found themselves exhausted when the war ceased, and ill prepared to face their liabilities. These grave inequalities in their financial condition, the result of a random distribution of the burdens of the war, it was now necessary to correct; and accordingly the assumption of the State debts was followed by the appointment of a board of three commissioners for the settlement of the accounts between the United States and the individual States.

Under the arrangement effected by this commission, the States were charged with all advances made to them by the United States, including the amount of assumed debt, with interest computed to the last day of the year 1789. The bills of credit, of which the advances principally consisted, were liquidated according to an established scale on a specie value at the date of each of the advances. On the other hand, the States were credited with their individual expenditures, whether of moneys paid, or supplies furnished, to the United States. This total of credit was liqui-

dated to a specie value also, with interest to the last day of the year 1789. The expenditures on the part of the States having been found to exceed the advances from the United States by over seventy-seven and a half millions of dollars, an apportionment of this excess was made among the States according to the rule for apportioning representatives and direct taxes, as prescribed by the Constitution of the United States. In order to insure perfect equalization among the States in regard to their contributions in support of the war, it was necessary that the amount of excess apportioned to each State, added to the advances it had received from the United States, should exactly correspond to the war expenditure of that State. This was the standard of adjustment. In every State in which the expenditures fell short of this amount, a balance equal to the difference became due to the United States; and where any of them exceeded it, the balance was in that case due the State from the United States. The first were the debtor States, the latter the creditor States.

The debtor States were New York, Pennsylvania, Delaware, Maryland, Virginia, and North

Carolina. The creditor States, New Hampshire, Massachusetts, Rhode Island, Connecticut, New Jersey, South Carolina, and Georgia.

The balances due to the creditor States amounted to $3,517,584, and were funded by the United States in accordance with the law providing for the settlement of accounts. These balances stood on the same terms as the other part of the domestic debt, except that the stock was not transferable. The purpose of this restriction was to keep as much of the debt as possible out of the hands of foreigners, who were already holders of a large portion of it. But it was soon found necessary to suspend it, so as to enable the States to pay their remaining creditors. The balances proper were funded in six-per-cent stock, two thirds of the amount to bear interest at once, the other third only after the year 1800. Each State also received interest upon its balance at the rate of four per cent per annum, dating from the last day of December, 1789, to the last day of the same month, 1794. And this interest, which amounted to $703,516.80, was funded in three-per-cent stock. The annual interest on the whole, except as to the de-

ferred stock, began to accrue on the 1st of January, 1795.

The sum-total of debt undertaken in behalf of the States amounted to $22,492,915.54. By the assumption proper, the public debt of the country at large was not augmented. This measure only transferred a portion of it, which was thereby lifted off the States in their separate capacity, and placed upon them in their national or united capacity. In this shape, the General Government was able to manage and provide for it; and it could do it more efficiently than would have been possible under the conflicting systems and less ample resources of the States. For it must be remembered that the States had now vested in the Federal Government a concurrent and superior power of taxation; and, moreover, that, in giving up their right to lay duties on imports and exports, they had parted with their most productive source of revenue. In a word, the assumption was a measure devised for fixing the responsibility for the payment of all the debts arising out of the Revolution upon the National Government, where it properly belonged.

The case was different with the funded bal-

ances. Here there was an actual increase of debt. The United States, in funding the balances of the creditor States, acted, in reality, as agents only in behalf of, and as guaranties for, the debtor States, from which their payment was really due. But the United States have never succeeded in collecting the balances due from the debtor States, which would, as was originally intended, have offset the newly created debt. These States were given the option of settling their accounts, either in money or in public stocks, or of expending the sums due upon the fortifications belonging to the United States. This invitation was made to them in the year 1799, at the time of a threatened outbreak with France. The State of New York partially complied with it. With this single and unimportant exception, nothing has ever been recovered upon the balances of the debtor States.

The funding of the public debt on the terms already mentioned, enabled the Government to introduce system into the finances from the very beginning. The postponement to the 1st of January, 1791, of the annual payment of interest (all accruing to that date being con-

verted into new capital), afforded an opportunity of testing the unknown resources of the country in advance of the necessity of a large revenue. In other respects also, this delay was opportune; for the old Government, not possessing the right to raise direct revenue, had no fiscal service. This branch, therefore, needed to be organized from its foundation. Officers were to be appointed all over the country, buildings provided for the transaction of business, and all other arrangements entered into incident to the collection of revenue.

To aid in administering the finances, a national bank, under the name of the Bank of the United States, was also chartered, with a capital of ten million dollars. It was granted the privilege of issuing notes, to be receivable in all payments to the United States; and the Government likewise subscribed to two million dollars of the stock, paying for it by means of a loan from the bank of the same amount, which was reimbursable in ten years by equal annual instalments. The interest on this loan, at six per cent per annum, was derived from the dividends on the stock. As these averaged all through the duration of the bank's charter

$8\frac{13}{36}$ per cent, a handsome profit was annually coming to the Government.

On the 4th of July, 1789, a temporary tariff was adopted to meet the immediate wants of the Government. It was based on the one which, as a federal tax, had been proposed to the States by the Continental Congress, and agreed to by all but two. The initiatory expenses of the Government being mainly on account of the current service, the duties for the seventeen months this tariff was in force yielded a surplus over appropriations of $1,371,430. A large portion of this sum was subsequently invested in purchases of the public debt.

From the 1st of January, 1791, the annual income needed by the Government for all demands was $2,839,163, distributed as follows: for the annual interest on the foreign debt, $542,600; for the interest on the domestic debt, $1,896,563; and for current expenses, $600,000. In order to provide this sum, an average increase of two and a half per cent was placed on existing duties. Moreover, on the 1st of January, 1792, the date of the interest on the funded assumed debt becoming due, duties were laid on spirits distilled at home,

while a higher rate was then, too, put on the foreign article. These additional duties gave an annual product of $800,000, and served to raise the national income to the level of all probable demands. All taxes and duties now established were to continue permanent as long as the debt lasted. Moreover, with the single exception of an annual reservation for the Government of $600,000, their first proceeds were pledged and appropriated to paying the annual interest of the debt. Congress, however, reserved the right of substituting for these duties others of equal value.

But no sooner was this equilibrium in the public accounts secured, than it was disturbed by unforeseen causes, demanding a still larger revenue. An expensive war with the Indians of the North-West was almost immediately thrust upon the Government. The Whiskey Insurrection in Pennsylvania, growing out of resistance to the excise law, broke out in 1794; and in the same year, our relations with England becoming critical, the harbors were fortified, arsenals and armories established, supplies of arms and stores purchased, and new ships built for the navy; finally, a treaty at heavy

cost had to be purchased of Algiers. To meet these unexpected demands upon the Treasury, fresh taxation had to be resorted to.

Apart from a deficit of $526,000, to provide for which some additional duties were put upon imported articles in May, 1792, the year 1794 was the one of greatest embarrassment during this period. The appropriations in that year exceeded those of any former year by upwards of two and a half millions of dollars; while the revenue, by reason of the interruptions to commerce, was estimated to fall off from the receipts of previous years $1,300,000. The tariff was again increased; and internal duties were laid upon carriages, refined sugar, snuff, licenses for selling wines and foreign liquors, and property sold at auction. Besides this, a prospective deficiency of cash in the Treasury by the 1st of April made it necessary to provide immediately a million and a half of dollars. This sum was raised by a loan on the new internal duties, pledged in anticipation. By the close of the year, signs of relief were apparent. In 1795 the Indians made peace; and England, too, modified her foreign policy in regard to neutral commerce.

The public expenditures were at once reduced; and soon there was a well-grounded assurance, on the basis of the existing revenues, of a surplus of more than a million of dollars in the year 1795, and in succeeding years also. The annual revenue was placed at $6,552,300.74; the current annual expenditure at $5,481,843.90; giving an excess of income of $1,070,456.84. Making allowance for unforeseen demands and for deficiencies, the latter sum was deemed a sufficient guaranty for commencing a regular and immediate reduction of the public debt. With this view, the temporary tariff duties, which had been imposed under the pressure of recent complications, foreign and domestic, were retained as an addition to the permanent revenue; and the five internal duties, yielding a sum of $380,000, were also continued in force until the 1st of March, 1801, the year in which the interest on the deferred stock was payable. Prudence forbade the making of any provisions beyond that date, as at that time Congress could decide from the actual condition of things whether those duties or any others would be required.

There had prevailed from the very outset a paramount determination of lessening the burden of the public debt as soon as practicable. By the terms of the Funding Act, the proceeds of the public lands in the Western territory were appropriated solely in redemption of the debt. The fund from this source was set down at between three and four millions of dollars, the estimated price of the lands being twenty cents per acre. Again, after ample provision, according to the Act, had been made for funding the debt, the surplus revenue to the end of the year 1790 was set apart for the purchase of any public stocks which were selling below their par value in the market.

The purchases made by the use of this surplus were doubly beneficial at the time; for, besides sinking a capital often more than fifty per cent greater than the sum expended, they accelerated the rise of stocks that were in great demand abroad, thus producing a clear profit to the nation proportioned to the enhanced price foreigners were obliged to pay for their purchases. A loan of two millions of dollars was even authorized for the same

purpose, in order to place in the hands of the Government sufficient means to influence the market whenever it was desirable. In the first quarter of the year 1791, the six-per-cents sold at eighty-two cents on the dollar; the three-per-cents and the deferred stock at forty-two cents. As early as the 1st of August, the six-per-cents had risen to par value, and the other two stocks to sixty cents; and in the month of January, 1792, the former commanded a premium of twenty-five per cent, and the two latter as much as seventy-five cents on the dollar. But they all subsequently declined, owing to the troubled state of public affairs.

The nominal amount of all the stocks purchased was $1,994,801.43, for which $1,392,-672.54 in specie were paid. Of this sum, $957,770.65 were credited to the surplus revenue, and the balance to the loan.

The first permanent fund for the extinction of the public debt was established by the Act of the 8th of May, 1792. This fund had a twofold endowment: first, it was endowed with the annual interest on the public debt, — that is, on the portion previously purchased,

redeemed, or paid into the Treasury for any debt or demand of the United States, and also on any portion that might thereafter be purchased, redeemed, or so paid; and secondly, it was endowed with the surplus remaining of the sums appropriated to pay the interest on the public debt. The annual proceeds of this fund, which increased as the outstanding stock decreased, were appropriated and inviolably pledged to the purchase, in as equal proportion as possible, of the several species of stocks constituting the public debt, at their market price respectively, if it did not exceed the par or true value; and this purchasing was to continue until the annual income of the fund should be equal to two per cent of the whole amount of the outstanding funded stock bearing a present interest of six per cent. The fund was thenceforth to be applied to the redemption of that portion of the debt (according to the reserved right of the Government), until the whole of it was redeemed. This redemption being accomplished, purchases were to be resumed out of the fund of the remaining unredeemed debt.

The fund was, however, inadequate to any very serious or immediate reduction of the debt. The annual interest account, its only certain resource, was of slow growth, and amounted at that time to less than forty thousand dollars; whereas a sum equal to two per cent on the whole amount of the six-per-cent stock was upwards of six hundred thousand dollars.

The plan of redemption devised by the Act of the 8th of May, 1792, was now enlarged and perfected by the Act of the 3d of March, 1795, in which the name of sinking-fund was first adopted. The resources of the sinking-fund were now enlarged to such an extent out of the permanent revenues, out of the proceeds of former provisions, and from the bank dividends in excess of the annual interest on the unpaid instalments of the subscription loan, as to enable the Government, on the strength of this increase, to commence, on the 1st of January, 1796, the annual reimbursement of the six-per-cent stock; to pay as they became due the annual instalments themselves of the subscription loan of the National Bank; and upon the final settle-

ment of this last-mentioned debt, to begin on the 1st of January, 1802, the regular reimbursement of the deferred stock.

The absolute appropriation of more liberal funds was deemed imprudent and unsafe in the existing state of the revenue, but some auxiliary resources of a contingent character were made available to the sinking-fund. These consisted of the net proceeds of the sales of the public lands, of all moneys received into the Treasury on account of debts which originated under the old Government, and of all surpluses arising from excess of revenue or from unexpended appropriations. These accessions, it was hoped, would amply secure a more speedy redemption of the debt than had been expressly stipulated for. No further provision in the sinking-fund was made applicable to the purchase or redemption of any other component part of the public debt until the six-per-cent and the deferred stock had been discharged. Upon such discharge, all the moneys of the fund were to be used in the purchase or redemption of the remaining unpaid debt, whether funded or unfunded, foreign or domestic. If, however,

prior to the discharge of the six-per-cent and the deferred stocks, the resources of the sinking-fund were found adequate to paying the sums annually applicable to the reimbursement of these two stocks, and yielding a surplus besides, then this surplus might meanwhile be employed in reducing the other parts of the debt. Nor could the moneys of the sinking-fund be diverted to any other purpose than the paying of the public debt until the whole of it was paid, except when its only remaining outstanding portion was the three-per-cent stock; in which event Congress reserved the right of using the moneys of the fund thereto pledged for any purpose it might see fit.

The President of the Senate, the Chief Justice, the Secretary of the Treasury, the Secretary of State, and the Attorney-General, for the time being, were appointed the commissioners of the sinking-fund. All reimbursements of the capital of the debt were placed under their superintendence; and all moneys accruing to the fund were so vested in them as to acquire the nature and quality of a proprietary trust, incapable of being diverted,

except by a violation of the principles and sanctions of private property, to any other object than the reduction of the public debt.

In order that this system of redemption might not be dependent on extraneous provisions, but have within itself full means of complete execution, the commissioners were empowered and required to anticipate the revenue already appropriated, and make loans whenever the prompt payment of the annual interest rendered such a course necessary. These loans were not to exceed in any one year one million of dollars, and were to be payable within a year from the date of each loan. Furthermore, if, in their judgment, there was reason to apprehend that all the probable receipts into the Treasury for any year would fall short of the amount needed for the annual current expenditures of the Government, as well as for the payments they had in charge, they were in such contingencies also authorized, and even enjoined, to borrow, either by direct loan or by the sale of certificates of stock, any sums requisite for paying instalments falling due of the debt existing on the 3d of March, 1795. For the payment

of the interest on these projected loans, there were pledged and appropriated, first, the interest on the sums reimbursed from their proceeds; and secondly, such amount of the permanent revenue as might be necessary to make up any deficiency. The interest on the six-per-cent and the deferred stocks was already set apart to form accumulations for paying the successive instalments of the principal of these stocks, for these instalments increased each year in the ratio of the interest liberated by each payment.

The great object of the law of the 3d of March, 1795, seems to have been to make efficient provision for the gradual reimbursement of the six-per-cent and deferred stocks, and so pave the way for a future though distant payment of the remainder of the debt. As the successive reimbursement of these two stocks became thenceforth an irrevocable stipulation with the creditors, they were virtually converted from an annuity of six per cent per annum for an indefinite period, into an annuity of eight per cent for a period of somewhat less than twenty-four years from the first payment under the new system. The first

payment made on account of the principal of this stock was in one undivided sum, but after that no distinction was observed in the payments between the interest account and that of the principal. Dividends at the rate of one and one-half per cent on the original amount of stock were paid on the last day of March, June, and September, and of three and one-half per cent on the last day of December, of every year. This arrangement was adopted because of its easy execution, and was most favorable to the equal and regular circulation of the revenue.

The foreign debt already rested in contracts which provided for its gradual reimbursement at stipulated periods. The Dutch debt made up the largest part of it. This debt amounted to $12,200,000, and for its extinguishment during the next fifteen years required annual payments ranging from $80,000 to $2,220,000, and averaging for each of these years $813,-333.33, not including premiums, gratifications, commissions, and expenses of remittance; for all of these debts no provision was practically made, except by borrowing money. However, as an expedient for postponing these pay-

ments as long as the state of the finances required it, a proposal was submitted to the foreign creditors to convert their debts into a domestic stock, reimbursable at the pleasure of the Government. An increase of interest of one-half per cent per annum, in addition to the rate already secured by the original contracts, was offered them in indemnification for incidental charges, — such as the expense and hazard of employing agents in the United States, the chances of exchange, payments of insurance and commissions, and in general for equalizing the facilities attending the payment of interest at home. The French Government only, we have seen, subscribed the remaining portion of its debt to this domestic loan.

The Act of the 3d of March, 1795, is an event of importance in the financial history of the country. It was the consummation of what remained unfinished in our system of public credit, in that it publicly recognized, and ingrafted on that system, three essential principles, the regular operation of which can alone prevent a progressive accumulation of debt: first of all it established distinctive revenues for the payment of the interest of the

public debt as well as for the reimbursement of the principal within a determinate period; secondly, it directed imperatively their application to the debt alone; and thirdly, it pledged the faith of the Government that the appointed revenues should continue to be levied and collected and appropriated to these objects until the whole debt should be redeemed.

Under the operation of this sinking-fund, the payment of the public debt was designed and anticipated to take place by the year 1826, or within a period of about thirty years. It did not respond to this aim and anticipation. Indeed, the practical working of a scheme so complex and intricate would have been in the long-run problematical, even had events suffered it to take its regular and intended course. Be that as it may, the failure of some of its provisions, in concurrence with fresh troubles both at home and abroad, besides aggravating some latent defects, overstrained the weak points of a system which, under more favorable circumstances, might have been atoned for, if not wholly overcome, by the elastic resources of the country.

CHAPTER II.

REVENUE, EXPENDITURE, AND THE SINKING-FUND.

THE Sinking-fund Act of 1795, while it made assured and ample provision for reimbursing the six-per-cent stock, failed to extend a similar provision to the other part and description of the public debt. This omission proved a defect in that important measure; and it was so speedily brought to light, that its disturbing influence was at once felt in all the estimates of the year following the one which saw the passing of the Act.

Early in the year 1796, intelligence reached this country that the creditors in Amsterdam and Antwerp had rejected the proposal to convert the foreign debt into a funded domestic stock; and it was also known that the unsettled position of affairs in Europe, caused by the war then waging, would in the interim preclude any further loans being obtained there.

Funds would therefore have to be transmitted abroad, to meet reimbursements on the foreign debt, as stipulated for in the contracts. This unforeseen necessity was of itself sufficiently embarrassing; but it chanced to be further aggravated by a request made about the same time by the directors of the United-States Bank, to the effect that the Government would take measures for paying the loans already due the bank, and would also provide for the loans falling due in the course of the current year.

Here were sudden and unlooked-for demands upon the Treasury, which raised the expenditure for the year 1796 to the extent of several millions of dollars. Yet no provision whatever had been made for discharging these obligations.

The loans made to the Government by the Bank of the United States amounted, on Jan. 1, 1796, to $6,000,000. Each of these several loans had been obtained on a pledge of the revenues, with the sole exception of a balance of $1,400,000 yet due on the stock loan of $2,000,000. During the recent troubles, when expenses were mounting up rapidly, every

appropriation that called for immediate payment was compelled to be made against newly levied revenues, which themselves were already subject, on their collection, to credits running from six to twenty-four months. In order, therefore, to procure the money at once, loans designed to be no more than temporary were obtained of the bank, in anticipation of the actual receipt of taxes. As, however, the revenue properly belonging to each year was being kept tied up by reason of the long credits given on the outstanding bonds, the pledged taxes, when they reached the Treasury, were all absorbed in defraying the current expenditures. Under these circumstances, the Government found itself compelled, in order to keep on hand sufficient cash funds, to renew the temporary loans, when once they were made; and so it went on, until the debt owing to the bank grew at length to be so enormous as even to paralyze its operations, depriving it, as the fact proved, of nearly two-thirds of its capital.

When, therefore, the payment of this debt came eventually to be insisted on, some method of raising the money had to be devised dif-

ferent from that of taking it from the receipts for the coming year, 1796; for these receipts, although already appropriated to pay the bank, were clearly not available.

In this conjuncture, a proposal was submitted to the bank, to commute the entire debt into a funded domestic stock, to bear interest at six per cent. This plan met with failure, inasmuch as the bank declined to receive the stock at its par value. The next move was an attempt to negotiate a public sale of the stock; but the terms offered were so disadvantageous to the Government, that the loan was withdrawn. Out of this new stock, not redeemable until after the year 1819, only eighty thousand dollars' worth were sold, for seventy thousand dollars in cash.

As a fresh resort toward responding to the more urgent demands of the bank, 2,780 shares of the bank-stock, at $400 a share, were sold at a premium, realizing thereby $1,384,260. The proceeds of this sale had the effect of satisfying the bank, and indeed the relief it produced was such as to allow a postponement in discharging the balance of the loans. These were by degrees subsequently paid out of the

current revenues. As to the Dutch debt, the instalment of $400,000 due upon it the Government found itself enabled to pay by an unexpected increase in the revenue from imports and internal duties.

The annual addition to the revenue which would be required, in order to ward off the necessity of having recourse to new loans, was found on computation to be $1,229,000. For the purpose of commanding this amount, duties were laid, under the Act of March 3, 1797, on certain imported articles. These duties consisted, in the main, of an increased specific duty on sugar, tea, and molasses, and of an extra *ad valorem* duty of two and a half per cent on cotton goods. This increase, combined with an addition of fifty per cent to the tax on carriages, brought the annual revenue up to nearly $7,500,000. Out of this sum, not only the current service was provided for, but also the interest on the entire debt; and it was found adequate, besides, for paying any instalments of the principal that might fall due from the year 1797 to the year 1801. By special appropriation, all proceeds arising from the new tariff duties were set apart for the

payment, first, of the principal of the foreign debt, and then of the principal of the debt due to the Bank of the United States.

Scarcely had these arrangements been entered upon when the Government found itself on the point of a serious difficulty with France. The spoliations of this power upon our commerce had aroused a determination to protect it. Discretionary powers were conferred on the President in an extra session of Congress, which, in the event of an actual outbreak, were to be employed in such preparations for the conflict as his judgment might deem necessary. In anticipation of this possible expenditure, additional duties were imposed; but as the contingent expenditure was not created, the receipts of the year 1797 produced a surplus of upwards of $1,900,000, which, in accordance with the law, was applied to the reduction of the public debt.

In the year following, the need of giving greater security to American commerce compelled the Government to submit to heavy cost, both for military and maritime armaments. Stamp-duties were now laid upon printed and written documents of various kinds; and at

the same time, there was also placed upon dwelling-houses, lands, and slaves a direct tax of two millions of dollars, which latter tax was apportioned among the States, according to the Constitutional rule. A loan of five millions of dollars was likewise authorized; and this loan went to supply the deficit in the current expenses for the years 1798 and 1799, which was caused by the outlay for defensive operations by land and sea.

This loan of five millions of dollars is noteworthy as being the first in the United States that was negotiated of its individual citizens. The times looked unpropitious for its success: there was a near prospect of war, and no reason to look for any but the most limited assistance from the banks. In spite, however, of this untoward outlook, stock, redeemable after fifteen years, was issued, bearing eight-per-cent interest, which was the market-rate at the time. It was all readily disposed of at par. Additional stock on the same terms was issued to the amount of $1,481,700. This latter was for the current service of the year 1800, and its sale realized an average premium of 5.6 per cent. Besides these two loans, certificates of

indebtedness (known in the Treasury records as "navy six-per-cent stock") were issued for $711,700, in payment of a number of war-vessels furnished to the Government in the year 1798. To secure the interest upon these new debts, a further increase of the tariff duties was resorted to.

The restoration of peace to Europe, coupled with the settlement of our own difficulties with France, relieved the Government of further financial embarrassment. A speedy reduction was made in public expenditures, especially in those connected with the military and naval establishments. The expenditure for the current service, including in the term all payments excepting those for the public debt, was reduced from $9,972,248 in the year 1800, to $4,958,228 in the year 1802; while, owing to the same causes, the receipts from customs rose from $9,080,932 in 1800, to $12,438,235 in 1802. This last-named sum exceeded by $1,200,000 the aggregate up to that time that had been collected in any one year from the customs and internal revenue both together.

Congress profited by this prosperous condition of the finances of the country, to redeem

the pledge given at the different times of contracting the public debt. By the terms of this pledge, every deficiency which might occur as to the provisions for paying the interest and principal, Congress had bound itself to supply. How very inadequate the Sinking-fund Act of 1795 had proved, needed no further demonstration than recent events. Its operation had been from the first limited to the debts existing on the 3d of March, 1795; and this restrictive feature in its scheme necessarily excluded from its provisions all subsequent debts. The Dutch debt also was placed in an equally improvident condition; for by their refusal to modify their contracts, or to make new loans, the foreign creditors had thereby defeated the sole provision made in behalf of their debts by the Sinking-fund Act. As a consequence, a permanent and effectual enactment covering the whole of the public debt did not at this time exist. Nevertheless, the annual interest had been promptly met, as also such portions of the principal as were absolutely demandable. And yet the mode under which these payments were made, was irregular and unauthorized.

These irregularities, and others of greater moment, were the direct result of not ingrafting upon the original plan of the sinking-fund such supplementary legislation as the public exigencies demanded. The auxiliary revenues, for instance, which had been recently and especially created for the interest and principal of the new public debt, had never been pledged on the faith of the United States, as was the case with the other revenues; nor were they vested in the commissioners of the sinking-fund, under whose direction the law required that all payments on account of the principal should be made. Even this positive injunction came to be continually disregarded, by reason of large payments having at times to be made out of moneys independent of the sinking-fund, and charged to the year in which they occurred. Furthermore, no imperative clause directing their payment accompanied the recent appropriations for the debt; and since these appropriations were not bottomed on any specified source of revenue applicable solely to the debt, they could claim no priority over appropriations for the civil, military, and naval expenses of the Government. In common with

these latter, they, too, simply rested upon any moneys in the Treasury. It is clear, then, that these recent provisions were not in the nature of a contract with the creditors; and besides, like other ordinary enactments, they were liable to repeal at the pleasure of Congress, without involving any breach of faith. Nor was any security afforded by the appropriation of the surpluses of the revenue, even though vested in the commissioners, since nothing else was needed to defeat this provision than to make appropriations for other objects than the public debt.

The Dutch debt fared like the others, notwithstanding the duties of the year 1797 were expressly appropriated in payment of it. What these duties amounted to, was not easily ascertainable; for, under the existing mode of ascertaining them, it was not practicable to separate, in the annual total, these particular *ad valorem* duties from the other proceeds of similar duties. Taking, however, a liberal estimate, the former were set down at $500,000. This sum when added to the revenue from the sale of the public lands, which was to be applied to the same object, produced no more than $900,000. But it was now that the

heaviest instalments of the Dutch debt were beginning to fall due: they varied for the year 1802, and for the five years thence ensuing, from $920,000 to $2,220,000, averaging for each of these six years nearly $1,600,000. The actual provision for these instalments was therefore not only uncertain, but inadequate. As for the duties of the year 1800, any appropriation of them to the newly made debts was rendered nugatory by the fact of those duties having been made applicable to the payment of the interest on the public debt. The duties of 1797 were limited in their appropriation to the Dutch debt and to the debts of the Bank of the United States, the appropriation to cease on their extinction.

To remove this conflict and confusion in the provisions relating to the public debt, Congress enacted a new law on the 29th of April, 1802, which was designed to remedy the defects, and supply the omissions, of the Sinking-fund Act of 1795. The fiscal resources of the country were now subjected to a clear and definite survey, and a like scrutiny was applied in ascertaining the actual nature and extent of the national obligations.

Just previous to this re-organization of the sinking-fund, the prosperous condition of the revenue had justified a repeal of all internal duties. These duties were peculiarly obnoxious, and had all along been regarded as hostile to the genius of a free people. Their tendency to multiply offices, and to increase the patronage of the executive, was another cause of objection to them. Besides, the established policy of the Government was to abstain, whenever practicable, from exercising the right of taxation on subjects over which the individual States possessed a concurrent right.

The revenues which continued in force were the duties on tonnage and imported merchandise; the proceeds of the sale of public lands; the duties on postage; and the incidentals arising from fines, fees, and penalties, from repayments into the Treasury, and from sales of public property other than lands. These several sources were estimated to yield yearly $9,950,000. There were, besides, resources of a temporary character of over $4,000,000; these consisting of the balance due on the direct tax, of outstanding internal duties, of the sums derived from the sale of public vessels, of the shares

of the Bank of the United States, and of the disposable balance of specie in the Treasury.

Taking the estimate of appropriations as a basis, the annual permanent expenditures, leaving out those relating to the public debt, were found to require the sum of $2,650,000. Deducting these expenditures from the annual revenue left a remainder of $7,300,000. Now, to make all the payments actually due, during the years 1802, 1803, and 1804, on the interest and principal of the foreign and domestic debt, would demand a sum equal to the above surplus. And as large a sum could be furthermore absorbed were the Government to provide for all the payments for the eight years ending in April, 1810, which, according to its reserved right, it was at liberty to make. But after that date the prospective employment of so great a fund as $7,300,000 was in some measure dependent upon the price at which purchases of the outstanding stocks could be effected. Considering, however, that the ability of the country to bear taxation was now increasing with its rapid growth in wealth and population, thus making the burden lighter year by year, the

provision deemed necessary for the first three arduous years was accordingly extended to the term of the full redemption of the public debt.

The sum of $7,300,000 was thus annually and permanently appropriated to the sinking-fund, and vested in its commissioners, who were directed to apply it, whether by payment or purchase, to the further and final redemption of the public debt. Not only the re-imbursement of the principal was placed under their superintendence, but also the payment on account of the interest and contingent charges. And it was made the duty of the secretary of the Treasury to pay over this sum to the commissioners, in such amounts and at such times as a faithful and punctual compliance with the engagements of the United States might demand.

Against every ordinary contingency to arise out of a possible fall in the current revenues below the estimates on which the appropriation for the public debt was based, the Treasury was effectually provided. Certain eventual demands against the United States, arising under treaties with foreign powers, and amounting to several

millions of dollars, were made a contingent charge upon the sinking-fund. But, circumstances permitting it, these demands, together with the temporary bank loans, were payable out of any other moneys at the command of the Treasury. The four million dollars of temporary resources previously mentioned, were by this arrangement set free, to be drawn upon, if necessary, in aid of the current revenues. As an additional precaution, authority was conferred on the commissioners of the sinking-fund to extend, by means of re-loans, the terms of payment of the Dutch debt, so as to equalize over the eight ensuing years the payments which fell principally on the first five years. This expedient, if made effectual, would go to reduce the payment in Holland from about two millions a year to one million. A million of dollars would in this way become disengaged, and might be employed in payment of the bank loans, or of any other part of the debt held and payable here in America.

The Sinking-fund Act of 1802 was a marked improvement upon that of 1795, in that it simplified a hitherto very complicated system of finance, thus making it fully adequate to its

specific object. Not a single appropriation, not an asset belonging to the old fund, was either deranged or altered by its action. The reform was accomplished by kneading together into one consolidated mass the scattered and special funds already established, and then by adding to this total sum, out of the duties on tonnage and imported merchandise, sufficient to make up the designated amount of $7,300,000. The actual addition to the permanent and vested revenues of the old fund was about $1,800,000.

By the Act of Nov. 10, 1803, six-per-cent stock to the amount of $11,250,000 was created, and made redeemable after the year 1817. This was in pursuance of a convention with France for payment in part of the purchase of Louisiana. Upon this new burden being thrown upon the sinking-fund, its resources became augmented to the extent of $700,000 annually.

At first there was no little misgiving as to the prudence of devoting so large a sum as $7,300,000 to the use of the public debt. But this misgiving was speedily dissipated when it was found that, for several years, the revenues were in excess of the estimates, and the

payments made upon the public debt were accordingly far beyond the amount of the appropriation. The rapid extinction of the debt ensuing thereupon hastened the arrival of the time when the application of the full amount of the sinking-fund would have to depend upon purchases.

In anticipation of this state of affairs, the laws relating to the purchase of the public debt were revised in the year 1806. All the previous Acts had authorized purchases at the market-price, if this did not exceed the nominal value of the stocks. This authority, however, from the nature of the debt, proved to be nugatory. The three-per-cent stocks, for example, were selling below their nominal value, but still at a comparatively higher and less profitable rate than the eight-per-cent stocks, which were held above their nominal value. Now, however, the maximum price which the commissioners might in future give for the different species of stocks was absolutely fixed by law. For six-per-cent stocks no more was to be paid than the nominal value of their unredeemed amount. In fixing the rate for the eight-per-cent stocks, they were re-

garded as consisting of an annuity of six per cent worth its par value, and of an annuity of two per cent a year, to cease on the stock becoming redeemable. A premium was accordingly offered for them, equal to one-half of one per cent for every quarter remaining unexpired from the time of purchase to the 1st of January, 1809; this being the date when the eight-per-cent stocks were payable at their nominal value, at the pleasure of the Government. The purchase-price of the three-per-cent stocks was fixed at sixty-five per cent of their nominal value. Every other limitation upon the powers of the commissioners, whether as to the time or the manner of making purchases, was set aside, thus leaving them free to judge and act for the best interests of the public.

With a view to testing the efficiency of these new provisions, a proposal was shortly made for the purchase of the debt. The experiment did not prove successful. Of the old six-per-cent and deferred stocks, only $17,517.61 were purchased: all other offers, amounting altogether to $91,956, were made at rates above the market-price of the stocks. In the course

of the years 1806 and 1807, somewhat over one million dollars' worth of eight-per-cent stocks was bought; but the bulk of it was held back, notwithstanding the premium offered, until called in for redemption at maturity. The hope of hastening the reduction of the public debt by purchase was therefore soon abandoned, since the direct tendency of this policy was to raise the price of the stocks. It thus became necessary to find employment for more than three millions of dollars of the appropriation to the sinking-fund, which in each successive year would otherwise remain unexpended.

The plan adopted was set forth in the Act of Feb. 11, 1807, by which it was enacted to change the terms of the six-per-cent, of the deferred, and of the three-per-cent stocks. A proposition was submitted to the holders of the six-per-cent and deferred stocks to exchange the unredeemed amount thereof into a common six-per-cent stock, redeemable at the pleasure of the Government upon public notice being given six months previous. It was stipulated, however, that the total amount of every new certificate should be reimbursed in a single payment. In thus having an investment not

subject to partial payments on account, as was the case with the old stocks, there was an advantage in the opinion of the Government. A more favorable offer was made for the conversion of the three-per-cent stock, as its value was regulated to some extent by the obligation of the Government ultimately to redeem it at par. By this fact, there was likewise conferred upon it somewhat of the character of a perpetual annuity, the principal of which was never to be redeemed. For these reasons, the three-per-cents had always been worth more, relatively to the interest received, than a six-per-cent stock ; the former never selling for less than sixty per cent of their nominal value, when the latter was at par. Accordingly, the three-per-cent stock, at the rate of sixty-five per cent of its nominal value, was made convertible into a six-per-cent stock, not redeemable until after the whole of the eight-per-cent and four-and-a-half-per-cent stocks, as well as all the stock which might be created in exchange for the old six-per-cent and deferred stocks, should have been reimbursed. Under the supposition that the plan of exchanging old stock for new was generally to be adopted

by the public creditors, there was thus offered to the holders of the three-per-cent stock at least eight years' immunity from redemption. The realizing during these years of a double rate of interest was, in the opinion of the Government, considered equal to a redemption of more than seventy-two dollars, a price far above the highest this stock had ever reached.

To the foreign creditors — and these held over eleven millions of the three-per-cent stock, and about fourteen millions of the unredeemed amount of the six-per-cent and deferred stocks — was given the option of receiving their interest, either in London, at the stipulated exchange of four shillings and six pence sterling on the dollar, or at Amsterdam, at the rate of two guilders and a half current money of Holland for every dollar. Interest was not due abroad, however, until six months after the date it became payable in the United States; and it was also subject to a deduction of one-half of one per cent, as commission to the bankers paying it. The stocks bearing foreign-paid interest were convertible at any time into others, with the interest payable in the United States.

Subscriptions were received, both at home and in Europe, from July 1, 1807, to March 17, 1809. Within this period, $9,376,439.62 (nominal value) in six-per-cent and deferred stocks were surrendered, for which were given $6,294,051.12 in new stock denominated "exchanged stock;" and $1,859,850.70 in new stock known as "converted stock" were issued in lieu of $2,861,309.15, subscribed in the three-per-cent stock. Of the exchanged stock, $168,464.90 were taken in Europe; and of the converted stock, $464,494.74.

Although the conversion of the old debt could show but this limited success, it enabled the commissioners of the sinking-fund to do that which otherwise they could not have done; namely, to apply, from the year 1807 to the year 1812, the entire appropriation of eight million dollars to the redemption of the public debt. Before the year 1811 the whole issue of the exchanged stock was reimbursed, and during that year and the early part of 1812 the converted stock was redeemed. Meanwhile, all the other parts of the debt, both foreign and domestic, which the Government was at liberty to discharge

according to the contracts, had been paid off.

At the close of the year 1811, the country found itself on the eve of its second war with Great Britain. This unfortunate but unavoidable event not only put a stop to the further rapid extinguishment of the public debt, but added to it enormously. The great reduction, however, which had up to this time been effected, proved a seasonable and important advantage to the Government in the coming struggle. Excepting the annual reimbursement of the six-per-cent and deferred stocks, no further payments were due on the principal of the debt till the year 1818. Every portion of the debt which was redeemable before that year had already been paid off. The sum required for paying the interest and the reimbursement amounted to $3,792,382: any surplus over this amount was by the Sinking-fund Act of 1802 applicable to the current expenses of the Government. Of the eight million dollars' appropriation, more than $4,200,000 had been liberated; and this amount constituted, therefore, a positive increase of revenue at the disposal of the national defence. The impor-

tance of this fact can be fully appreciated only in the light of subsequent financial difficulties, which of themselves sorely tested the energies, and strained the resources, of the country during the war of 1812.

We must here recur to the old Revolutionary debt, which, liquidated and funded as it was under various Acts of Congress, amounted to $76,781,953.14. In this total is found included the funded interest, which had been suffered to accumulate from the date of the organization of the new Government to January, 1791. As, however, the Government, not to speak of its want of a system of finance, had to begin its career without revenue or funds of any kind to meet the demands of even the ordinary civil list, it would seem impossible for it to have made an earlier attempt to pay regularly the annual interest.

Although the natural result of this delay in commencing the payment of the interest in question was to increase the public debt, still there are several considerations which suggest an offset to this increase. The large arrears of interest, which had accumulated at the rate of six per cent upon the old Revolu-

tionary debt, were of right demandable by the creditors in cash. By the terms, however, of the new contract with them, that interest was now converted into a capital stock, bearing an interest of only three per cent; and therefore the difference between the market value of that stock and an actual settlement in cash represented the gain to the Government. Also, on the principal of the debt, there was a reduction of interest from six per cent to a rate equivalent to four per cent, according to the basis upon which the debt was readjusted. And again, owing to the fact that the interest on the debt did not begin to accrue until the year 1791, a large surplus of revenue was enabled to be collected up to that date, which, under a judicious law of Congress, was applied to the redemption of the principal of the debt, by means of purchases on the part of the Government. As the public stocks were then selling below their nominal value, a saving of nearly fifty-four per cent was effected upon a capital of $957,770.65 invested. Furthermore, in so far as the purchased stocks consisted of six-per-cents and three-per-cents, they yielded an immediate

annual interest of $38,000, and a prospective interest upon the deferred stock of the same amount; all of which every year as it accrued was used in additional purchases.

Of the original Revolutionary debt, $33,824,-188.86 remained unpaid on Jan. 1, 1812. The whole of it might readily have been paid but for the internal disorders, as well as foreign entanglements of a warlike aspect, and but for the Government's consequent inability to apply to its reimbursement all revenues over its ordinary expenditures. From this combination of untoward occurrences, a vast outlay of money had been required, which, if it could have been applied to the extinguishment of the old debt, would have thereby reduced it to quite small and manageable proportions. A large increase, also, of the original debt had become a necessity. There was, for instance, the item of new stock created to the extent of $18,523,400, and none of it going to reimburse the old debt. Again, under the provisions of a convention with Great Britain of Jan. 8, 1802, in relation to Revolutionary debts known as "British debts," large payments, not appearing in the state-

ment of the public debt, had been made out of the current revenues: these payments amounted to $6,356,053.45, together with certain claims of American citizens upon the French Government, which, in conformity with the Louisiana convention of 1803, the United States undertook to pay in addition to the direct payment to France for the territory itself. These items were adequate to reducing the old debt by Jan. 1, 1812, to something less than nine million dollars.

For the payment of this balance, there must, besides, be taken into account the assets of the Government on the 1st of January, 1812, in cash or its equivalent, which were applicable to the face of the debt. These assets amounted to $13,500,000, and consisted of the cash balance in the Treasury, of outstanding unpaid revenue bonds, and of sums due on public lands sold to private individuals. The Government was furthermore possessed of other property, which might be considered as additional items in the general account of debt, such as lighthouses, fortifications, military and naval arsenals, with their stores and supplies, and more than one hun-

dred and eighty-five sail of ships and armed vessels. The balances, also, which were rightfully due to the Government from the debtor States, should not be overlooked in this connection.

Notwithstanding the great enlargement of the public debt in the period from 1789 to 1812, the whole amount of it on Jan. 1 of the last-mentioned year had been reduced to $45,120,304.53, or less by $31,661,648.61 than it was at the outset of the new Government. The principal part of this reduction was effected after the year 1802, nor from that date was there any increase of taxation for the purpose. In fact, the prosperous condition of the permanent revenues permitted, in the year 1807, the repeal of the duty on imported salt.

The temporary revenues, however, were augmented in the year 1804. The piratical operations carried on by the Barbary States brought our Government, in that year, into hostile conflict with that power for their suppression, and a considerable fleet was despatched to the Mediterranean. To defray the expenses of this expedition, an advance of two and a half per cent was placed upon all

existing *ad valorem* duties on imported goods; and an extra ten per cent was chargeable against foreign bottoms. These special duties were known as "Mediterranean duties," and they were not to be removed until the ratification of a peace with the regent of Tripoli. In the year 1806 (when they were to expire by limitation), Congress voted two millions of dollars to enable the President to open negotiations for the purchase of territory belonging to Spain lying east of the Mississippi River. In order to meet this large appropriation, the Mediterranean duties were continued in force for two years longer; and even before the expiration of this term, it was found necessary to prolong it on account of threatened difficulties between Great Britain, France, and the United States, growing out of the position and claims of neutral commerce. The extension to the United States of the British orders in council, and of the Berlin decree of the Emperor Napoleon, compelled Congress, on the 22d of December, 1807, to pass an Act laying an embargo upon all vessels of those two powers in the ports of the United States. This Act was suc-

ceeded by another of March 1, 1809, interdicting commercial intercourse on the part of the United States equally with Great Britain, France, and their respective dependencies.

The warlike preparations necessarily accompanying these measures largely increased the expenses of the Government, while the suspension of commerce following on the embargo and the non-importation and general non-intercourse Acts caused a great falling off in the revenues. For the year 1808 they were not materially impaired, and for the reason that, from the long credits given, the receipts of that year arose from the revenues belonging to the year preceding. But for the year 1809, the actual receipts of the Treasury fell short of the current expenditures alone by upwards of $2,507,000. To make up this deficit, and to provide as well for payments on account of the principal of the debt, recourse was had to the surplus revenue of other years, which had accumulated as a balance in the treasury. In the years 1810 and 1811, the receipts of the Government, owing to a reduction of expenses in the naval department especially, once more rose above the expenditures.

CHAPTER III.

THE WAR OF 1812. INCREASE OF THE PUBLIC DEBT. FINANCIAL EMBARRASSMENTS.

By an Act of Congress passed June 18, 1812, war was declared against Great Britain; and, on debating the question of providing means for carrying on the war, loans were fixed upon preferably to taxes. To the inevitable losses and privations of the coming conflict, Congress seemed unwilling to superadd the burden of new taxation, and at a time, especially, when the people would be extremely crippled in their ability to pay any considerable revenue. For it must be borne in mind, that just now nearly all the floating property of the nation was lying idle in port, brought and held there by the action of the embargo; that commercial profits would be curtailed, if not altogether ruined, by the sea-forces of the enemy; and that also, from the same cause, all surplus agricultural products would be shut out from

foreign markets. It was observed, on the other hand, that at no one time had there been in the country so much specie, such an overplus of unemployed capital, as at the present. The public stocks were commanding a high price, and so was every species of stock: the Government credit was unimpaired, and the banks were in possession of large accumulations of capital. These several circumstances seemed to place loans within easy reach and reasonable terms: at all events, they served to shape the financial policy then adopted, and which it was intended to adhere to throughout the war. Accordingly, it was determined upon that the ordinary expenses of the Government, and the interest on the public debt, including also that upon any new debt superinduced by the war, should be covered by taxation; but that the cost of the war itself, as being an extraordinary expense, was to be paid for out of borrowed money. In brief, then, while the annual revenue was to continue as before on the basis of a peace establishment, the burden of providing the sinews of war was placed on loans only.

Certain duties, then, there were, which, in

order to maintain their productiveness, demanded an increase as the natural sequence of a declaration of war. This increase was distributed as follows: on imported articles, all existing duties were doubled ; a further duty of ten per cent was added on goods brought into the country in foreign bottoms ; and the tonnage duty on vessels owned wholly or partially by subjects of a foreign power, was raised from fifty cents a ton to one dollar and fifty cents. These additions to the several duties named were to be maintained until one year after the conclusion of peace.

Concurrently with the above adjustment of duties, authority was given to raise eleven millions of dollars by means of a loan. The rate of interest was by law limited to six per cent, and the par or nominal value of the stock was fixed upon as its minimum price. Certain banks, chiefly those in large commercial centres, were designated for receiving the subscriptions to this loan ; and it was permitted to these banks (in view of securing subscriptions on their own account) to retain on deposit moneys received by them for the loan, until such time as there might be need of them for

the public service. This privilege was accorded also to some other banks, which though precluded by their charters, or by other reasons, from subscribing to the loan, and receiving stock, yet advanced money to the Government under special contracts of one and of two years.

Out of the projected loan of eleven millions, the sum actually borrowed was $10,284,700. And of this amount, stock was issued for only $8,134,700 (which included $100,000 borrowed of the Committee of Defence of the City of Philadelphia in 1813–14). All this stock was made redeemable at the pleasure of the United States after the close of the year 1824, due notice of such redemption to be given by advertisement in a public newspaper printed at the seat of Government. There was annexed also this stipulation, — that the whole amount of stock credited at the time of redemption to any one person on the books of the Treasury, should be reimbursed in a single payment.

By an Act of June 30, 1812, that is to say, only shortly after the loan for eleven millions had been authorized, an issue of Treasury notes was likewise authorized, to the amount of five

millions of dollars, to form a part of the loan. By this supplementary enactment, it was intended to secure the Government against any disappointment in obtaining money, as it might be wanted. It was also believed, that, by varying in this manner the power of raising the loan, its negotiation in all likelihood would be made easier and more effectual. Even in the event that the loan of eleven millions were to be fully subscribed to, still a positive and independent issue of Treasury notes was authorized, nevertheless, provided it should appear that the money was demanded by the necessities of the war.

This issuing of Treasury notes was an experiment now for the first time attempted. That the established currency of the country should be injuriously interfered with by them, was by no means contemplated. There was a certainty almost that the negotiation of the war loans, as well as the enlarged transactions of the Treasury, would of necessity impede the circulating medium, particularly as the Treasury would always keep a considerable sum out of circulation at the very time it would be needed most. Not the slightest doubt existed that

Treasury notes, if used judiciously, would have the effect of giving an increased circulation of money, and would in this way operate as a counterpoise to the contraction of the currency, sure to follow upon the commercial activity stimulated by the war, unless neutralized in its action by an additional amount of money issued by the banks or by the Government.

The first issue of Treasury notes was readily put into circulation within a year. Looking at the security upon which they rested, they embodied as safe an investment as the Government was competent to offer. They were receivable in payment of taxes and duties; and, moreover, as the duties and taxes of a single year would exceed in amount the issue of notes for that year, the former thus became indirectly pledged for the redemption of the latter. From the fact of their bearing interest, they possessed in some respects an advantage over other kinds of money. They were better than cash to such individual holders of them as needed to collect by degrees funds for a specific purpose; while in the hands of bankers they became more valuable than specie, from their

power of constituting a reserve fund, thereby furnishing a basis for discount as well as for current paper. Also do we find that the banks were the largest takers of these notes.

In September, 1812, the Treasury began to negotiate for the sale of the notes; and nearly all of them were sold by the 31st of March, 1813. They bore an interest at the rate of five and two-fifths per cent per annum, and were charged upon the sinking-fund. They were receivable, not only for duties and taxes, but also in payment of public lands, sold by the United States. They were reimbursable one year after the date of their issue, and by delivery and indorsement were made transferable.

For the year 1813, the second year of the war, the revenue at the disposal of the Government was set down at twelve millions of dollars, including in this estimate an unexpended balance of the loan, and also of the Treasury-note issue of 1812. Upon this showing, it was manifest that sixteen millions of dollars would be required in order to balance the account of receipts and expenditures; and a loan of this amount was accordingly authorized by an Act of Feb. 8, 1813. In this place it may be well

to remark, that although a considerable portion of the public stocks had been sent from England, and put upon the market here, yet these stocks, bating a slight decline at first, continued at par during the four last months of the year 1812, and this in face of the many additions to the public debt.

By the terms of the second loan Act, mentioned above, the stock to be issued under it was to bear interest not exceeding six per cent, and was to be reimbursable at the pleasure of the Government, any time after an interval of twelve years, dating from Jan. 1, 1814. A commission was offered of one-quarter of one per cent for getting subscriptions, but no restriction was laid on the sale of the stock below its par value. In view of facilitating the loan, and, if necessary, of improving its terms, a discretionary power was confided to the Executive to issue Treasury notes, as part of the loan, for such sums as he might deem expedient, but not to exceed a total of five millions of dollars. This power, however, was not exercised.

On the 20th of February, 1813, public notification was made, inviting subscriptions to the loan of sixteen millions. According to the

terms offered by the Government, subscribers were to receive for every one hundred dollars loaned, a certificate of six-per-cent stock of one hundred dollars, together with an annuity of one dollar for thirteen years from Jan. 1, 1813. All incorporated banks in the cities of Salem, Boston, Providence, Albany, New York, Philadelphia, Baltimore, Washington, Richmond, and Charleston were authorized to open books of subscription to the loan. Under this first notification, only $3,956,400 were subscribed. The books were opened a second time until the 31st of March, upon the same terms, but only at certain named banks in New York, Philadelphia, Baltimore, and Washington. Since, however, the result of the first subscription made it evident that the whole amount of the loan could not be obtained upon the terms offered, proposals were solicited simultaneously with this second subscription (to be open till the fifth day of April) for borrowing the whole or any part of the sixteen millions which might remain yet unsubscribed for on the 1st of April, thus leaving it to persons making proposals, to state for themselves on what terms they were willing to lend to the Government. And, again,

that persons might have no cause for withholding either subscriptions or proposals from any apprehension of committing themselves to less favorable terms than might be allowed to other bidders, the several subscribers to the loan of sixteen millions were at liberty to claim the benefit of any of the terms accepted by the Government. Under this liberal expedient, the full amount of the loan came to be negotiated.

The terms accepted by the Government, and which were submitted to the option of all the subscribers, were the two following: —

1st, The lenders to receive a six-per-cent stock (the interest payable quarterly) at the rate of eighty-eight per cent; that is, one hundred dollars in stock for eighty-eight dollars in money.

2d, For every one hundred dollars in money, the lenders to receive one hundred dollars in six-per-cent stock, and an annuity for thirteen years from the 1st of January, 1813, of one dollar and fifty cents, payable, like the interest, quarter-yearly.

These terms, it is seen, were equivalent to a premium of thirteen dollars and sixty-three

seven-elevenths cents on every one hundred dollars loaned to the Government, and in actual interest to seven and a half per cent. Preference was given to the first alternative offered; and the stock, for the most part, was taken at the rate of eighty-eight per cent. The whole amount of stock issued was $18,109,377.43. A condition was attached to two of the proposals, aggregating $10,250,000, which the Government accepted; namely, should any additional loan for the year 1813 be made before its close, on other terms than those now offered and accepted, the option should lie with the subscribers of applying them to the loan of sixteen millions.

In addition to the loan of sixteen millions for the service of the year 1813, a further issue of Treasury notes was authorized, not to exceed in amount five millions of dollars. These were designed to furnish the means for redeeming the notes of the first issue, as they might become due, and were similar to the latter in every respect.

But, before the close of the year 1813, new and unforeseen demands came to the surface; and the alternative had to be confronted of

borrowing more money, or of issuing Treasury notes at a rate far more rapid than would be required to redeem and replace those of the first series. Any issue of Treasury notes beyond the original issue of five million dollars, it was believed, could not be maintained in circulation without great difficulty, and risk even of depreciation. This view was strengthened as well by the limited commerce of the country as by the small amount of outstanding custom-house bonds, to the payment of which the notes were applicable. Congress, therefore, made choice of a loan to cover the increased expenditures of the current year; and, not to have the public service suffer from delay or embarrassment, the amount of the loan was put at $7,500,000. This sum, added to the $2,000,000 of estimated revenue receipts, would suffice not only for the current year, but for three months of the year 1814 also. A new issue of Treasury notes having thus been obviated, the amount of these notes outstanding Jan. 1, 1814, was $4,907,300, — an amount not in excess of what a steady and effective demand required. The second series of notes was not fully issued till Feb. 21, 1814.

At the same session of Congress in which authority was given to raise the loan of $7,500,-000, a system of internal duties was also established. This latter measure had in view to smooth the way for the loan as well as to obviate any embarrassing terms. For it was now clearly seen that a revenue depending almost wholly upon foreign commerce, as that of the United States, did not afford, and owing to its unstable character, and liability to be ruined by war, could not afford, security even for the regular payment of the interest on the public debt. With the exception of a small duty upon imported wire, no new source of revenue had been opened since the commencement of the war. It was found that the receipts from revenue had fallen more than five millions of dollars below the amount required to meet expenditures, calculated upon the basis of a peace establishment; that is to say, below an amount necessary to provide for the ordinary expenditures of the Government and the interest upon the outstanding public debt. This precarious state of the finances had already injuriously affected the public credit, and the unfavorable terms of the last loan were ac-

counted for by the omission on the part of Congress to adopt a system of internal taxes. Any further delay in making an increase of taxation was therefore no longer possible.

The new duties now established would yield, it was estimated, an annual revenue of five million dollars. In determining subjects for taxation, regard was had to such as former experience had taught to be not only most productive, but also acceptable to the people. The term of these taxes was fixed at one year after the end of the war: hence they became soon known as "war-taxes." They constituted, — a direct tax of $3,000,000 upon lands, dwelling-houses, and slaves; a duty upon refined sugar, upon carriages; upon licenses to distillers of spirituous liquors; upon licenses to retailers of wines, spirituous liquors, and foreign merchandise; and upon bank-notes, obligations discounted by banks, and bills of exchange, these latter collectible by means of stamps. A duty of twenty cents per bushel was also placed upon imported salt.

On the settlement of these new duties, a notification of the Treasury Department was issued on the 30th of August, 1813, setting forth

that proposals would be received until the twenty-fifth day of December following, for loaning the sum of $7,500,000, either the total amount or separate portions of it. The rate of interest was not limited by the terms of the law, but it was therein provided that no certificate of stock should be sold at a rate less than eighty-eight per cent. The stock also was made reimbursable at any time after an interval of twelve years dating from Jan. 1, 1814. No proposal was to be received for any sum less than one hundred thousand dollars, but individual subscriptions might be incorporated into a single proposal for this amount; and a commission of one-eighth of one per cent was allowed for aggregating such subscriptions. Also, to deal equitably in a matter involving a variety of terms offered, it was made optional with any persons whose proposals might be accepted, to adopt, instead of their own terms, the terms of any other subscriber whose proposal had equally been accepted. The whole amount loaned was payable by instalments (as had been the case with the previous loans) into certain banks designated by the Treasury. After paying the first instalment, the remaining

ones might be combined in a single payment; but, in this case, interest was only allowed as if each instalment had been paid in accordance with the public notification. The sum-total of all the proposals received, and which were at various rates, amounted to $12,791,500.

After rejecting the least favorable rates, the sum that was accepted on loan was apportioned among the successful subscribers by a uniform rule. The rate at which the loan was taken was eighty-eight dollars and twenty-five cents in money for every one hundred dollars in stock, bearing six-per-cent interest. The amount of this stock issued for the present loan was $8,498,581.95, being a discount of $998,581.95.

The Congress which met in regular session in December, 1813, entered at once upon a consideration of the ways and means for the year 1814. The deficit in the revenue, below the appropriations made, was estimated to be not far from thirty million dollars. The only resource drawn upon to meet it was the public credit. By an Act of the 4th of March, 1814, authority was granted to issue five million dollars of Treasury notes absolutely, and with

it was given a discretionary power to issue five millions more with the understanding that these latter should be deemed and held as a portion of any loan authorized during the session.

Under sanction of an Act of March 24, 1814, the Government was empowered to provide for a loan of twenty-five million dollars. By the terms of the Act, the stock was made reimbursable at any time after the expiration of twelve years from the following January; but no limitation was placed, either upon the rate of interest, or the price of the stock.

This loan was so much larger than any heretofore authorized in the United States, that its announcement in Congress gave rise to a very earnest and interesting debate as to the ability of the country to furnish it. The advocates of the measure based their argument upon what they considered to be obvious and reliable statistics. For instance, upon a total property valuation of $2,567,480,000, there was estimated an annual income to the nation of $237,649,600. The maximum amount of currency required for circulation was placed at one-fifth of this amount, making it consequently $47,569,120. The bank capital was

stated at $75,000,000, which was computed to sustain a circulation in notes and discount of $100,000,000. Now, the difference between this last sum of $100,000,000 and the $47,569,120 of circulating medium actually called for by the productive industry of the country, represented the estimated ability of the moneyed capitalists to loan, namely, $52,430,880. And of this sum Congress now proposed to borrow $30,000,000. These computations, together with the argument they were sought to sustain, were attacked by the opponents of the loan, and characterized as erroneous, inconclusive, and misleading.

Although the discussion resulted in the adoption of the measure, it was thought, however, that an attempt to obtain the whole twenty-five millions at one subscription would not prove so successful as if only a portion of it were called for. A loan of ten millions was accordingly announced, and proposals solicited for subscriptions to it. The sole conditions laid down by the Government respecting it were, that the stock issued should bear interest at six per cent, payable quarterly, and that it should not be redeemable until the

thirty-first day of December, 1826. A commission of one-fourth of one per cent was allowed upon all subscriptions, but no subscription was accepted for less than $25,000; and to subscribers the privilege was given of selecting for themselves any of the terms that might be accepted by the Government.

The sums offered for this loan reached a total of $12,466,806. As, however, all offers made at rates less than eighty-eight per cent were rejected, the amount actually taken became thereby reduced to $7,935,581.

A condition annexed to one of the offers resulted in a stipulation which the Government had reason afterwards to regret. It was to the effect, that, if any of the remaining portion of the twenty-five millions was borrowed on terms more favorable to lenders, the benefit of such terms should be likewise extended to holders of the stock issued for the loan of ten millions. This condition had some sanction in precedent; and the Government, already anticipating the early return of peace, was influenced in acceding to it, in this instance, by the importance of upholding meanwhile the price of the stock, and so maintaining

the credit of the country. The condition referred to was annexed to an offer of five million dollars; and to reject it would have reduced the amount obtained to less than three million dollars, — a sum wholly inadequate. By depressing the stock to eighty-five per cent, only a little more than six millions could have been secured, which amount still fell short of supplying the deficiency of the Treasury.

Shortly after, a loan of six million dollars was opened, under the power contained in the Act of the 24th March, 1814. It now became evident that the condition insisted upon by the contractors for the ten-million loan was the most injurious to the Government that could have been devised; and this because it made it for the interest of the contractors to depress the price of the public stocks rather than to sustain it. Except the case of a few small offers, the best terms the Government could now command, and per force accepted, were at the rate of eighty dollars in money for one hundred dollars of six-per-cent stock. The market-price of this stock hardly exceeded eighty per cent; nor was there any prospect of the Government's obtaining on

better terms the money which had become so indispensable to its present needs. In virtue of the condition annexed to their contracts, the holders of the ten-million loan demanded and received a premium of eight per cent over and above the twelve per cent already paid to them.

The proceeds in money of this second loan came to $2,520,300. Upon terms similar to those already allowed, additional stock was issued, which went in payment of contracts made by the War Department, and of other contracts entered into with certain States and cities which had advanced money for fortifications, supplies, payments to the militia, etc. The total amount of stock issued under the loan of ten millions was $9,919,476.25 ; and under the loan of six millions, $5,384,134.87. Subsequently, further sums were raised from time to time, under authority of this same Act ; and undesignated stock, amounting to $746,-403.31, was issued therefor at special rates varying from eighty to ninety-five per cent. The total discount paid upon these later contracts summed up $93,868.95.

The difficulties had now become so great in

obtaining at home the sums required for the public service, that the Government at last determined to try the market in Europe. At an earlier period, the United States had borrowed money there on favorable terms; and, from having punctually and faithfully fulfilled their engagements, it was believed their credit abroad was on a firm and favorable footing. The necessary instructions and powers were therefore given for negotiating a loan for six million dollars; and six-per-cent stock was transmitted abroad, with directions for its sale. The attempt, however, proved unsuccessful, and no sale of stock was made.

As a consequence of the failure to obtain a sufficient supply of money by the sale of stock, either at home or abroad, the issue of Treasury notes, authorized by the Act of March 4, 1814, was begun at once, without waiting for the maturing of those of the previous issue. It was now no longer in view to limit the amount in circulation to five million dollars; and, in order to facilitate the increase proposed, notes were prepared of the denomination of twenty dollars. By thus making the notes of lesser amount than heretofore, they passed readily into a

more numerous class of moneyed transactions. And although less interest was paid on Treasury notes than for the money obtained on the funded stock, yet the certainty of their repayment at the end of one year, and the facility offered by them for remittances and other commercial transactions, had given them a currency which might now be enlarged upon, in view especially of the recent increase of taxes for which they were receivable. The speedy issue of Treasury notes from the month of March caused the amount in circulation to reach, by September following, nearly to eight million dollars. Of these outstanding notes, $4,457,069.80, principal and interest, were payable during the last quarter of the year, chiefly at Boston, New York, and Philadelphia. A portion of these were now to be replaced by new notes, leaving still in circulation between six and seven million dollars. And the experience of two years had shown that this was nearly as large an amount of them as could freely and easily be circulated, so long as the rest of the other circulating paper medium of the country remained unembarrassed, and held its own in the public confidence.

It was at this juncture that occurred the suspension of specie payments by all the banks in the country except those of the New-England States. The operations of the Treasury were at once thrown into embarrassment by this untoward event. The circulation of bank-notes became at once confined within the limits of the State where they were issued; the notes of New York and Philadelphia would not be received in Boston; nor would those of Baltimore or of the District of Columbia answer for payments to be made in Philadelphia. As the bank-notes, in this way, lost their general credit and circulation, so the Treasury Department was deprived of its former facilities in remitting money, and became still more helpless in not possessing authority to pay the required rate of exchange for the transfer of its bank-credits from places in which they were lying idle to others where they were needed to meet public engagements. The bank-credits, amounting to about $2,500,000, that were scattered over the whole country, became almost useless; while the credits at the three principal offices where payments on the public debt were made, — in Boston, New

York, and Philadelphia, — soon became exhausted. As a further consequence, therefore, attributable chiefly, if not entirely, to the suspension of specie payments, the dividends on the funded debt were not paid punctually, nor were the Treasury notes discharged at maturity.

In this state of things, neither the public credit, nor the use of Treasury notes, could any longer be preserved. Only the most needy creditors, contractors in distress, commissaries, quartermasters, and navy agents, acting as public officials, were found willing to accept them; indeed, no sooner were they issued, than they at once fell into the hands of the collectors in payment of taxes, defeating in this way the only remaining hope of a productive revenue. Thus the current supply of money from imports, from internal duties, and from the sale of public lands, ceased to afford, as heretofore, the data for any rational estimate, or to be relied upon as a reserve in providing for the dividends upon the funded debt. The authority to borrow money had lost its efficacy. The difficulty already experienced in securing loans, as well as the stringent terms forced upon the Govern-

ment, showed plainly, that, if loans were to be further resorted to, only higher and in effect ruinous terms would have to be offered to capitalists for the use of their money.

Public credit could now hardly be said to exist. The Government creditors declined to receive drafts on banks outside their own States; neither would they subscribe the amount of their claims to a public loan, nor accept payment of them in Treasury notes. It was now seen to be inevitable, that, by the close of the year 1814, there would be a deficit of more than seventeen million dollars, consisting mainly of unpaid balances of appropriations. No help could come from the Treasury, as its resources of every sort — cash, revenue, and loans — were already exhausted. The President resolved, therefore, to summon Congress in extra session in the month of September.

Beset by all the difficulties of a deficient revenue, a suspended circulating medium, and a depressed credit, it was not without the greatest solicitude that Congress perceived, on its assembling, that upwards of forty million dollars had to be raised for the service of the

year 1815; and, moreover, there remained no possible way of effecting this except by an appeal to public credit through the medium of Treasury notes and loans.

The chief cause of the existing depreciation in the public credit was traceable to an inadequate system of taxation. The revenue had again fallen below the expenditures of the former peace establishment, and this second time to the extent of $5,300,000. This fact compelled a review of the financial plan adopted at the commencement of the war; and it was decided that the theory of defraying all extraordinary expenses by means of successive loans, had proved itself inoperative, and must be abandoned. The actual wealth of the country was now, in its stead, to be put under requisition; having remained hitherto almost untouched, considering the variety of its natural products and industrial pursuits.

In pursuance of this new policy, the existing taxes, at the special session of September, 1814, were largely increased, and new ones created. The direct tax was raised to the yearly sum of six million dollars, and was extended to the District of Columbia for the first time. The

duty on carriages was raised, and made to include the harness: on distilled spirits a duty of twenty cents per gallon was imposed, with five cents extra if foreign materials were used, and this in addition to the duty already payable for licenses. The duties on sales by auction, and on licenses to retail wines, spirituous liquors, and foreign merchandise, were doubled; and the rates of postage were increased fifty per cent. Upon gold and silver watches, upon household furniture, and various manufactured articles, there were laid new duties, both specific and *ad valorem*. As to the duties on domestic manufactures, it was stipulated, that, so long as they were maintained, no reduction of duty, then payable on the imported articles of the same description, should take place. The faith of the United States was pledged that all these duties and taxes, or others equally productive, should be permanently laid, levied, and collected until the terms of the contracts respecting the payment of the principal and interest of the public debt should be carried out.

The yearly value of these increased duties was estimated at $15,500,000, a sum which raised the national revenue for the year 1815,

independently of the use of credit, to something more than twenty-six million dollars. Out of this amount, not only the current service of the Government and the interest of the public debt, including therein the redemption of the Treasury notes, were amply provided for, but also the payment of all liquidated balances of accounts, leaving besides a handsome surplus towards defraying a considerable portion of the war expenses.

The next step, on the part of Congress, was to relieve the Treasury from the immediate pressure of demands upon it, amounting to nearly fourteen million dollars, and to be paid during the last quarter of the year 1814. As a portion of these demands consisted in the payment of Treasury notes, an Act was passed on Nov. 15, 1814, by which such notes as matured on or before Jan. 1, 1815, were made receivable (at par and accrued interest) in payment of subscriptions to all loans; and further, for the very purpose of absorbing the claims of the Treasury notes, a new loan of three millions was especially authorized. These measures, however, brought but little relief, if any, having been passed too late in the year. Thus it hap-

pened, that on the 1st of January, 1815, there were in notes due, but unpaid, $2,799,220; all in the cities of Boston, New York, and Philadelphia.

Still further to facilitate and complete a settlement of the accounts of the year 1814, another Act was passed, giving authority for an issue of Treasury notes in two separate amounts, — the one, not to exceed $7,500,000, and which was to be credited to the two loans authorized under the Acts of March 24 and Nov. 15, 1814, the full amount of which had not been actually borrowed; and the other, for $3,000,000, which was to supply a deficiency in the appropriations for the expenses of the War Department. These new notes were similar to those issued hitherto in every respect, except that the payment of interest and of the principal were not, as in the case of previous issues, charged upon the sinking-fund, but upon any funds in the Treasury not otherwise appropriated.

These new issues of Treasury notes were made under a determination to abandon, as far as practicable, the negotiation of loans, and to rely for the time to come upon Treasury notes.

For such a scheme, the present seemed a most propitious opportunity. Ever since the suspension of specie payments, which restricted bank-notes not only to the States, but even to the particular localities in which they were issued, there had been no adequate circulating medium common to the citizens of the United States as such. As the moneyed transactions of private life were at a stand-still, and the fiscal operations of the Government put to great inconvenience, the want became universally acknowledged of some medium which, itself resting on a firm and solid basis, might unite public confidence, and betoken, not a local, but a general, circulation. As a remedy, then, for the disordered state of the currency, it was determined, by a special modification of the Treasury notes, to make them a substitute for bank-notes and specie, answering at the same time as a circulating medium between the States. By this measure, it was not in the least intended or insinuated that the acceptance of the Government paper should, in the course of payments and receipts, be made compulsory with the people. A tender-law would have been regarded at the time as a desperate

expedient, and unworthy of honest and enlightened statesmanship.

Authority was accordingly conferred, by an Act passed Feb. 24, 1815, to issue twenty-five million dollars in Treasury notes, which in principle were to differ essentially from any of previous issues. The new notes, while of course receivable in all payments due to the Government, were subject, in such cases, to be re-issued; and their denominations were expressly small enough to meet with ready circulation for ordinary current needs. No specific period was indicated for paying the principal and interest of the notes: only they were convertible, at the pleasure of holders, into certificates of funded stock, reimbursable at any time after Dec. 31, 1824. These notes were of two kinds: the one which was made payable to bearer bore no interest, and was transferable by delivery; the other was payable to order, transferable by indorsement, and bore interest at the rate of five and two-fifths per cent. The former class included notes of denominations less than one hundred dollars, and were fundable at seven per cent; the latter at six per cent: but any notes of one hundred

dollars and upwards were privileged, at the discretion of the Secretary of the Treasury, to conform to either description. It was also provided at the same time, that holders of Treasury notes of any prior issue might convert them, at par value with accrued interest, into funded stock bearing six-per-cent interest.

Besides these twenty-five million dollars in Treasury notes, there were yet remaining seventeen million dollars liable to be raised, either by loans or notes, under Acts passed in the year 1814, but not carried into full effect. However, even counting in these resources in abeyance, it was found, that, in order to complete the ways and means necessary to balance receipts and expenditures at the close of the year 1815, a further sum of fifteen millions would be requisite. To cover this anticipated deficit, Congress had in contemplation another loan; but before it came to be acted upon, the Treaty of Ghent was announced. This ended the war, and the measure gave way to others more expedient. In fact, the news of the peace reached the country before the Senate had acted definitely upon the Treasury-note Bill. By reason of this information, the interest

upon the stock, into which the notes were made convertible, was reduced by the Senate below the figures originally adopted in the Lower House.

Circumstances did not allow of a prolonged trial of the new plan of finance; and it is therefore not possible to ascertain what its ultimate effects would have been in the matter of restoring the public credit, which was the leading purpose of its adoption. Certain it is, however, that, in the interval between the adoption of the new policy and the announcement of peace, the liberal display of national resources, made in behalf of the public creditors, failed to exert its expected and natural influence — such is the difficulty in rescuing from reproach a credit over which suspicion and doubt have cast their blighting shadow. Despite even of the best system of finance, there were undoubtedly causes, which, as they grew out of the war, so they concurred, while it lasted, to depress the public credit. Not to lay any special stress upon the doubtful issue of the contest, there was at all events the uncertain term of its continuance to impress the public mind with a corresponding influence as

to what extent the aid of loans would be demanded for the public exigencies. Now, however, that the war was terminated, a state of affairs had supervened which gave to the entire public debt a fixed and ascertainable character. No apprehension existed that the most ample provision would be made for the punctual payment of the interest as well as for the gradual extinguishment of the principal of the debt, for Congress had always shown itself inflexible in its adherence to the faith and policy of legislative pledges. Upon the restoration of peace, therefore, proofs of financial confidence became apparent at once, of which the fiscal transactions of the Government reaped practical advantage.

CHAPTER IV.

PEACE WITH GREAT BRITAIN. THE PROTECTIVE TARIFF. EXTINGUISHMENT OF THE PUBLIC DEBT.

The financial outlook, on the termination of the war with Great Britain, was not such as to afford an immediate prospect of relief to the public credit from still further demands upon it. It had to be used, not only for the greater convenience of the Treasury, but in the present juncture an appeal to credit seemed essential even to its solvency. It was discovered, in the first place, that the expenditures of the year 1815, arising, for the most part, out of unpaid war claims, were liable to run up to fifty million dollars; then, again, that the prospective increase of revenue from customs could not be made available till 1816, owing to the credits given in collecting it; and furthermore, that the returns of the new internal taxes would not begin to be felt much

before the same time. Thus the actual revenue at command for the year 1815 was not able to be estimated at more than $18,200,000. And this total was itself liable to be absorbed by outstanding Treasury notes, even before it reached the Treasury.

The first move in this state of things was to free this actual revenue of its impediments, and thus bring it directly into the hands of the Treasury. Accordingly, by an Act of March 3, 1815, a loan was authorized which was made payable at the pleasure of the Government within twelve years dating from the last day of December, 1815. It was fixed at $18,452,800, as this sum exactly balanced the claims of the outstanding Treasury notes; and these notes were also made receivable for subscriptions to this new loan. Now although the terms of the above-mentioned Act actually covered all the outstanding notes, yet, as some had been issued under Acts making them a charge upon the sinking-fund, it was judged to be more expedient, for the present, to confine to this latter class the benefit of subscribing to the loan. Thus, not the full amount authorized was now offered, but only twelve

millions. The balance of the loan was for the time being subject to a contingency. There was, however, a provision of a previous law by which all Treasury notes, at the pleasure of the holders, might be converted at their par value and interest into certificates of funded debt bearing six-per-cent interest. Were it now to happen, that, instead of being thus funded, the notes should all be presented for payment, the Treasury was at liberty, in that event, to put out the remainder of the loan in order to meet their full payment. The general purpose, then, of the twelve-million loan was, (1) to absorb a portion at least of the Treasury-note debt, (2) to obtain funds for paying off the unsubscribed arrearages of that debt, and (3) to aid the Treasury by furnishing it with such a supply of the local currency of different places, as should hold some proportion to probable demands upon it in those localities.

By a public notice given March 10, 1815, proposals were invited for a six-per-cent loan, payable in money, or in approved bank-notes, or in Treasury notes. These several particulars were to be stated in any proposal that might be presented; viz., the amount of the loan to

be taken, the rate at which the stock would be received, the instalments for its payment (the last not to overpass ninety days from the date of subscription), and the banks into which the subscription would be paid. Quite a number of offers were presented, but all varied widely as to terms and conditions; none of them, however, going beyond a rate of eighty-nine per cent, while some were even lower than seventy-five per cent. Not a single one was accepted. It was now apparent that some different mode of procedure was to be taken, — one, too, that should be found more in unison with the changed position of the Treasury. Justice to the equal rights of the public creditors, and an honorable regard for the public credit, no less than a sense of its real value on a fair estimate, would not permit a loan to assume the aspect and character of a scramble. As things were now, speculation appeared to be ruling completely the price of the stock, which, in every town and village throughout the country, varied with the varying difference of exchange; and this latter, adjusting itself to the scale of depreciation in the local currency, ranged through all degrees up to twenty, and even to twenty-five,

per cent Among the leading Eastern cities, the greatest depreciation was found in Washington and Baltimore, where the paper of their banks was rated from twenty to twenty-five per cent below par, as compared with specie. In Philadelphia it marked from seventeen to eighteen per cent; in New York and Charleston from seven to eight; and in the interior of the country, particularly at Pittsburg, and in such portions of Western Pennsylvania where any banks existed, the depreciation was twenty-five per cent.

To deal properly and equitably with this unsettled state of affairs, the Treasury fixed upon the minimum price of ninety-five per cent for the stock: any offers made at this rate were to be accepted until the wants of the Treasury should be sufficiently supplied. The price of the stock was to be raised, however, at any time when the local funds were seen to approximate the probable amount of local demands; and whenever this accumulation should be fully equal to such demands, the loan was to be closed. In this way the price of the stock was made independent of the up-and-down prices of the stock markets

through the country, with no other influence to act upon it save the actual progress to the end had in view by the Treasury. Thus, for example, in the District of Columbia, subscriptions to the loan in money were at 95, 96½, 97, 98, and finally at par; in Philadelphia, New York, and Boston, they were all at 95 per cent. Subscriptions in Treasury notes, however, were everywhere made at the uniform rate of ninety-five per cent.

The rapid success of the loan demonstrated the wisdom of the policy adopted. The Treasury had secured by the month of June, 1815, in every place, except New York and Boston, enough money in local currencies to enable it to meet the payment of Treasury notes unsubscribed and in arrears. To holders in New York and Boston of notes due and unpaid (no current money having been obtained in those cities), was given the option either of accepting drafts on Philadelphia and Baltimore, or of exchanging the old notes (principal and interest) for new ones fundable at six per cent, or of subscribing them to the loan of twelve millions at the rate of ninety-five per cent, notwithstanding that

the price of the stock had been raised at the Treasury on June 18 from ninety-five to ninety-eight per cent. This proposition was to continue open until Oct. 1, the date on which the loan itself would close.

The full amount of subscriptions to this loan of twelve millions was $11,699,326.63. For this sum were issued $12,288,147.56 in six-per-cent stock; representing, as will be seen, a discount of $588,820.93 in placing the stock. With the exception of some temporary loans from banks, negotiated under the same authority, at par at the rate of six per cent per annum, and amounting in all to $1,150,000, no other loan was ever made afterwards in connection with the war of 1812.

It was not until Jan. 1, 1817, that funds were provided for paying all the Treasury notes in New York. By that time a steady increase of revenue had rendered the active resources of the Treasury everywhere available except in the Eastern States. Fettered by their charter stipulations, the banks in these States were powerless to suspend specie payments; and thus the circulating medium they required had to be furnished principally

by Treasury notes, and in part also by notes of the New-York banks. In fact, in order to avoid an issue of small Treasury notes, a temporary loan was obtained Jan. 1, 1817, from the recently chartered Bank of the United States, for the purpose of discharging in Boston claims arising from dividends and reimbursement of the public debt. And not until some months later did the Government find itself in a condition to pay in local currency all its obligations in the Eastern States.

The establishment of the Bank of the United States completed the settlement of the finances, in that it created a currency which was alike uniform and independent of the State banks. Since now, through its agency, the people were supplied with a money medium, which should be available for every public and private use, a prohibitory enactment was passed by Congress to the effect, that, after the twentieth day of February, 1817, no taxes, duties, or moneys accruing or becoming payable to the Government, should be collected or received in any other than gold and silver coin (the legal currency of the United States), or in Treasury notes,

or in notes of the Bank of the United States. As to other banks, their notes were receivable, if, besides being payable, they were actually paid on demand in the legal currency of the United States.

Through the disorder in the currency at the close of the war, a resort to Treasury notes had been forced upon the Government, and had been constantly followed up, even when the receipts of revenue were ample without them. Of the notes authorized under the Act of Dec. 26, 1814, $8,318,400 had already been issued by Sept. 1, 1815, at which latter date were begun to be issued those which had been voted in the Act of Feb. 24, 1815. The interest-bearing notes of this issue being all of the denomination of $100, as they were too high for a current medium of exchange, and as they were fundable at six per cent, had no special restriction laid upon their number. It was different with the "small Treasury notes:" these were limited to cases of peculiar urgency, — to pay off the army preparatory to its reduction; to pay dividends on the public debt; to furnish compensation due to members of Congress, together with several other miscella-

neous claims, entitled, apparently, to a like distinction. Though convenient for common use, these "small notes" were, for all that, converted into stock as soon as issued, being fundable at an interest of seven per cent: many of them, on this account, were disposed of by the Government at a premium. $3,392,994 represented the entire amount of "small Treasury notes" issued under the Act of February, 1815, which amount virtually came to be increased by re-issues to $9,916,018. Out of this latter sum, there were funded, in seven-per-cent stock, $9,070,386: the residue was either paid in for taxes, or lost. As regards the $100 interest-bearing notes, $4,969,400 were issued, and the stock taken for this amount was $1,505,352.18: the remainder of these must likewise, for the most part, have found their way back to the Treasury in payments of some sort.

Congress passed an Act, March 3, 1817, repealing so much of all Acts then in force as gave authority to borrow money, or to issue or re-issue Treasury notes. And it was furthermore enacted that all notes which at that date were, or which should thereafter become, from whatever cause, the property of the United

States, should be cancelled and destroyed. This cancelling and final disposition of the Treasury notes was nearly completed by Jan. 1, 1818. From this date, or say from the last quarter of 1817, the public debt was considerably above par: since all outstanding notes were convertible into stock, they were funded preferably to being paid into the Treasury for duties and taxes. And this preference, besides placing local funds into the hands of the Government, relieved it also of the necessity of making any appropriation for reimbursing the notes issued under the Act of Feb. 24, 1815, which notes, it will be remembered, having been originally designed for use as a circulating medium, were fundable, but not reimbursable.

The full amount of Treasury notes of all denominations which had been issued since the commencement of the war, was $36,680,794. The amount still outstanding on Sept. 30, 1818, was $297,506; but all interest upon these had ceased from that date.

While thus actively engaged in withdrawing the Treasury notes from circulation, and in the process of funding the public debt, Congress had also turned its attention to a thorough

revision of the whole system of internal and external taxation. The return of peace had been hailed with joy; and naturally, the people considered that an immediate release from the burdens laid on them by the war, would be the first token of relief. But, as matters then stood, no reduction of taxation was possible before the year 1816, inasmuch as the large arrearages of war-demands had laid an instant and absorbing claim upon the entire revenue and resources. Now, however, a permanent and uniform arrangement of the finances might easily be brought about, by reason of the large increase of revenue; and this from receipts of customs in particular, as, at the close of the war, the supply of foreign merchandise to be found in the American markets was comparatively very limited.

As soon, therefore, as a reduction of expenses had rendered it possible, the duties were repealed upon articles of domestic manufacture, upon furniture, and upon watches; while those on licenses to retailers in wines, liquors, and foreign merchandise became reduced, and the rates of postage also. The duties on distilled spirits were abolished altogether, though the

existing duty on licenses to distillers was doubled. The direct tax also was reduced from six millions to three millions, and one year from date it was not to continue any longer in force. These several reductions would aggregate, as was estimated, eight million dollars, with the prospective diminution of three millions more by the discontinuance of the direct tax, already mentioned, after the year 1816; as by that time there was in contemplation a further reduction of expenditures.

These changes in the revenue laws having been instituted, the permanent revenue at this time constituted of, —

1. The customs (estimated)	$17,075,000
2. The direct tax, net product	2,700,000
3. The internal duties on stamps . . .	400,000
" " " licenses to retail,	900,000
" " " spirits . . .	1,200,000
" " " refined sugar .	150,000
" " " carriages and harness . .	175,000
The internal duties on sales at auction,	400,000
4. Proceeds from sales of public lands .	1,000,000
Total estimated revenue . . .	$24,000,000

There were other sources of revenue besides

these, such as, the duty on postage; the moneys received from fines, penalties, and forfeitures, together with similar miscellaneous receipts. From all sources combined, the gross revenue was considered to be amply sufficient to provide for all payments on account of the principal and interest of the public debt, and for the support of the Government; leaving, besides, a surplus which would be quite equal to defraying such contingent and exceptional expenses as Congress might see fit to authorize.

The newly adopted plan of finance had settled an increase of forty-two per cent on the average annual product of the tariff duties — the years before the war serving as a basis of computation. The greater part of this increase was made a charge upon the *ad valorem* duties. The actual addition made to these latter duties were equal, when taken as a whole, to one hundred per cent increase over the duties that were in force previous to the war: still, on the other hand, as the increase upon woollen and cotton goods had, for reasons involved in the system, been fixed at $166\frac{2}{3}$ per cent, and 124 per cent, respectively, it was consequently esti-

mated, by reason of this prohibitory feature introduced into the new tariff, that the additional revenue from the added rates of the *ad valorem* duties would not reach higher in the aggregate than seventy-five or eighty per cent. Taken in general, the rates of the specific duties were raised in such proportion that their sum, when added to the receipts from the *ad valorem* duties, would tally on the average with an increase of about forty-two per cent upon the annual product of the tariff duties before the war, which was about $12,000,000.

While now the rates under the new tariff were put considerably higher than similar rates before the war, a great reduction was nevertheless effected upon the double rates levied during the contest. The war duties amounted to one hundred per cent increase upon all duties; whilst the new *ad valorem* duties, except those on woollens, cottons, and some few manufactures, ranged from only twenty-five per cent to seventy-five per cent; and the increase was still less on the specific duties. The tonnage duty of $1.50 was also reduced much below that amount; and there was besides a temporary suspension of all discriminating duties,

upon goods imported in foreign vessels, in favor of several of the European Powers, under the influence of laws, treaties, etc.; and later, these duties underwent a permanent modification.

A principal and avowed object of the new tariff was to afford protection to our own domestic manufactures. Their growth from the peace of 1783 down to the year 1808 had been slow, and therefore the more sure; but under the restrictive system, as during the war also, they had attained a rapid and firm expansion. They naturally fell short at the outset in their ability to supply arms and munitions of war, clothing material, and necessary articles of comfort generally; but, as the war went on, all these were gaining a steady increase. Hence, at a time when foreign supplies were either prohibited, or not to be obtained, the public demand was everywhere opening an inviting career to the investment of private capital, and to remunerative labor as well. Here, however, the question naturally arose, how it would fare with these new industries when the day of competition should return. For, unless this question were satis-

factorily answered, it was clear that capital would shrink from embarking in them. It was well known that the peace of Europe was ready to give a new impetus and new openings to the commerce of the world; and therefore it was made a matter of great public concern to preserve and foster the growing manufactures of the country, and particularly those which had come forth under the restrictive system, and during the war, and which had owed their existence to the capital and enterprise and skill of our own citizens.

The Government, as will have been observed, had been accustomed to place its chief reliance upon the duties on imports in order to cover its expenses. These expenses were now calling for a revenue of twenty-four million dollars: of this sum, seventeen millions were thrown upon the customs, leaving seven millions to come from internal duties and taxes, and from the sale of public lands. The new plan of revenue adopted after the close of the war of 1812 was purposely constructed to do away with the traditional usage of having the income of the country fall altogether or principally on the import duties, Congress

being governed in this action by the experience growing out of the late war. At that critical juncture, it was found necessary, in the midst, too, of great financial embarrassment, to construct a new system of internal taxation, and to seek out officials who might work it with ability, and with profit to the public service. As a consequence, a lack of vigor marked the early movements of the war; while at the same time, the people had to suffer a new, sudden, and most burdensome increase in their money contributions. The lesson of this experience was not forgotten: hence, on the return of peace, a judicious proportion of the existing taxation was sought to be retained, thereby preserving a system of revenue under which the internal resources of the country might at once be called into action, whenever its external commerce should prove inadequate to the exigencies of the times. Though adopted in 1816, this plan of finance was abandoned in 1817; not, however, without great opposition, even though its revocation was demanded on the score of its being actually superfluous, and still more on the ground of certain pledges previously made

by Congress. Even before the close of 1817, it had become manifest that the revenue derived from imports and tonnage, and from the sales of public lands, was fully adequate by itself to meet all the expenses of the Government. There was then the circumstance that these internal duties, under a solemn promise set forth in the Acts of 1813–14, were to continue in force no longer than one year after the close of the war. This assurance it was now in the power of Congress to comply with in perfect safety, and it was the prevailing view of that body that they ought to do so. These reasons were accordingly held to justify a general repeal of the internal duties, to take effect after 1817.

The total revenue that accrued from Jan. 1, 1814, to Dec. 31, 1817, on account of these internal revenues, exclusive of the direct tax, amounted to more than seventeen million dollars. The actual receipts for the same period were upwards of fifteen million dollars, upon which the expense of collection was five and seven-tenths per cent.

The re-organization of the sinking-fund had also its share in contributing to the settle-

ment of the finances. A first important step on the return of peace, was to relieve this fund of the excessive charges which had been thrown upon it ; and among these the charging upon it of the principal and interest of the Treasury notes had proved a special source of inconvenience, particularly when their issue came to reach the annual sum of eight and ten million dollars. Thus, in the year 1814, the multiplied engagements of the fund exceeded by more than five million and a half dollars the actual receipts into the Treasury. That it should at once be disencumbered of this burden, was imperative. The method made use of, as we have seen, was in the funding of these notes on reasonable terms, and in having them paid directly out of the current revenue. This mode of procedure chanced to be greatly accelerated by the enormous increase of revenue for 1816, during which year not less than twenty-four million dollars were applied to the reduction of the public debt, not to speak of means to its further reduction from a balance of upwards of ten millions remaining in the Treasury, Jan. 1, 1817. The sinking-fund became thereby virtu

ally relieved of the payment of the Treasury-note debt, as also of such temporary bank loans as had been likewise charged upon it. Thus, within the space of two years from the termination of the war, the Treasury notes had either been returned in taxes, or subscribed to the loan, or funded.

The Act of March 3, 1817, marks the date of the re-establishment of the sinking-fund, Congress having in its preceding session adopted the plan of revenue already mentioned, and determined the expenses of a new peace establishment. In every Act authorizing the several loans which swelled the public debt so enormously during the war, the faith of the nation had been uniformly pledged to provide special funds to pay the interest, and discharge the principal, of such loans. That pledge was now to be redeemed. A positive and fixed appropriation of ten million dollars annually was made to the sinking-fund, which was to be paid over out of the several proceeds of duties on imported merchandise, of the tonnage and internal duties, and of the sales of the Western lands then belonging, or which might thereafter belong, to the United States. This

money was vested in commissioners; and it was made the duty of the Secretary of the Treasury to pay it over to them at such times in each year as should enable them to meet punctually and faithfully any of their engagements in connection with the public debt.

The principal of the public debt amounted, in the beginning of 1817, to about $110,000,000. To this amount of principal, the sum above appropriated bore nearly the same proportion as the sum, assigned in 1804, to the fund, bore to the principal of that date. Out of the ten millions, $6,150,000 were needed to pay interest, leaving $3,850,000 for reducing the principal of the debt, —an amount which would suffice on a compound principal to pay off the whole funded debt in less than eighteen years, if applied strictly and uninterruptedly. In addition to this fixed and regular appropriation, thirteen million dollars were set apart by the law, out of the large revenue that accrued in 1816, to be applied during the year 1817 to the redemption of the debt: four millions of this amount, however, were to be considered as an advance on account of the regular appropriation of the sinking-fund for the year 1818. Furthermore,

any surplus in the Treasury remaining unappropriated, after each session of Congress, for the service of the current year, was also to be expended in the reduction of the debt, whenever this could be done without reducing the balance in the Treasury at the end of the year below two million dollars.

It was judged unnecessary to include in the form and scope proposed for the sinking-fund, either temporary loans or Treasury notes; as these had nearly been paid or absorbed by the loans effected previous to Jan. 1, 1817. Nor was the five-per-cent stock included which had been issued in payment of the subscription by the Government to the Bank of the United States. This transaction amounted in fact to no more than an exchange for the same amount of the bank capital, and which was estimated to produce an excess of dividends over the interest payable on the stock which would equal the reimbursement of the principal before the term of the expiration of the charter, not including therein the bonus of $1,500,000 given by the bank for the charter itself. To the same category was consigned the stock created by the compromise with the Yazoo claimants,

to the amount of $4,000,000, which, however, bore no interest. The payment of this stock was charged upon the sale of public lands in the Mississippi Territory.

Finally, we should observe that the working of the sinking-fund was by the law of March 3, 1817, greatly simplified. There were standing, at that date, on the books of the Treasury, to the credit of the commissioners, thirty-four millions of stock, of fourteen different descriptions, while the interest payable thereon was at seven different rates. This interest was supposed regularly to accrue and to be paid, when in fact its sole effect was to add to the labors of the persons keeping the Government accounts. It was now provided by the new law, that all certificates of public debt, when redeemed, should be destroyed, and that no further payment be made upon them. Either mode, it is true, had the same practical effect as to the diminution of the national debt: still, though the trouble saved in making up the accounts might be of little moment, it was thought not unworthy the wisdom of the Legislature to simplify their public statements, so as to have them easily and generally understood,

and to see that accounts plain in themselves were not obscured by the introduction of an useless fiction.

The application of all the large surplus revenue to the reduction of the public debt, as provided for in the Act of March, 1817, was rendered possible by a special provision in the charter recently granted to the Second Bank of the United States. Every species of funded debt was therein made free to be subscribed to the capital of the bank; and these subscriptions were made payable one-fourth in gold and silver, and three-fourths in funded debt. The public stocks thus subscribed became redeemable according to the Government's pleasure, and also at the rates subscribed; that is to say, the six-per-cent stock at par; the three-per-cent stock at 65 per cent of the par value; the seven-per-cent stock at $106\frac{51}{100}$ per cent. During the year 1817 there was paid, on account of the interest and principal of the debt, the sum of $25,423,036.12, and $21,296,306.04 in 1818. But from the year 1819 to 1823 inclusive, the entire sum applied to reducing the debt fell short by $11,921,604.70 of the amount it should have reached, had the full ten millions been

paid each year in principal and interest. While, however, during these five years, it sometimes happened that the amount of the debt, redeemable under the terms relating to it, would not have allowed, in the course of a year, of the payment of so large a sum as ten millions, even if the surplus funds in the Treasury had been equal to it; nevertheless, for the sudden change in a prospect so flattering, in the commencement of 1818, of a speedy extinguishment of the debt, the state of the public revenues was responsible. The annual interest was ever scrupulously paid, but the receipts into the Treasury were found insufficient to make up the entire appropriation of ten millions.

In 1819, for the first time since the war, the expenditures of the year had to be defrayed entirely out of the established annual revenue. The internal duties, it will be remembered, estimated at $2,500,000 per annum, were repealed after Dec. 31, 1817; and in the same session of Congress, that the repeal was made, the expenditures of the Government were increased by three million dollars. The apparent deficit produced by these Acts, for the service of the year 1818, was supplied by receipts from

arrearages of the direct tax and internal duties, and by a balance in the Treasury on Jan. 1, 1818, of more than six million dollars. But, as these temporary sources of supply were being nearly exhausted, the expenditures of 1819, therefore, were of necessity thrown on its own actual current receipts; and, in fact, a deficit which the great falling off in the receipts from customs and other sources, was already threatening, was only averted by a timely increase, toward the close of the year, in the proceeds from the sale of public lands, which exceeded the estimated return by nearly two million dollars.

But to cover the payments from the Treasury for the service of the year 1820, a loan of three million dollars was deemed requisite. Under the discretionary power conferred by the Act of May 15 of that year, which authorized this loan, two millions of it were obtained at a premium of two per cent upon stock bearing six-per-cent interest, redeemable at the pleasure of the Government, and one million at par, upon five-per-cent stock, which was not redeemable till 1832.

In 1821 it was found necessary, as the de-

cline in the receipts from customs still continued, to negotiate another loan, and for five million dollars. This sum was needed for the twofold purpose of settling outstanding claims upon the Treasury arising from appropriations made in the preceding year, but still unsatisfied and unexecuted, and also of completing the ways and means for the year 1821. This money, in accordance with the terms of the Act of March 3, was borrowed upon stock bearing five-per-cent interest, and redeemable after Jan. 1, 1835. As this loan had been obtained at a premium ranging from $5\frac{10}{100}$ per cent to 8 per cent, — averaging $5\frac{59}{100}$ per cent, — stock was issued to the amount only of $4,735,296.30, which, with the premium received, made up the five million dollars. But, notwithstanding the aid of this loan, charges remained upon the revenue of 1821, which exceeded by nearly fifteen hundred thousand dollars the available balance in the Treasury on the 1st of January, 1822.

Several causes concurred in bringing about the great falling off in the revenue from imports and tonnage in 1819 and 1820. The high prices of all exportable articles in the first years

of the peace down to the end of 1818, served to introduce extravagance of every kind, particularly in the consumption of foreign merchandise. To this period of excessive and ruinous importations, succeeded a term of great depression, which left the foreign commerce of the country in a very languishing condition. The sudden decline which now took place in all exportable articles, not only checked the purchase of foreign commodities, but made it also, to a great extent, impossible to fulfil engagements previously entered into. Merchants, of course, ceased importing when there was no demand ; but, more than that, they were even compelled to reship their foreign merchandise, in order, in this way, to avoid the payment of the revenue bonds, given as security for the duties. Hence the issue and payment of debentures took place to an extent altogether unusual and unlooked for. Even such bonds as became due were not paid promptly, owing to the difficulty in obtaining money. The contraction of the currency added its share also to the general depression. The banks which, during the suspension of specie payments, had been excessive in their note issue, were recently

forced, by the large exportations of the precious metals in 1818, to contract their discounts, so as to withdraw a large portion of their notes from circulation. The effect of this may be best observed in the fact that the currency which stood at about $70,000,000 in 1813, and was raised to $110,000,000 in 1815 and 1816, found its volume reduced by the close of 1819 to $45,000,000, — a reduction of 59 per cent within three years. Such an ordeal bore with too heavy a weight on the community not to impair the ability of individuals to discharge their liabilities to the Government. As a consequence, more than three million dollars' worth of outstanding revenue bonds were in suit about this time, of which a large portion never was collected, by reason of the insolvency of the debtors.

The tariff of 1816, framed with a view to a sufficient encouragement of domestic manufactures, likewise occasioned a loss to the revenue, as indeed it was expected to do. In this respect its effect was now being fully felt. From the year 1818 to the year 1820, for example, there was a fall in the importations of cottons and woollens from $24,804,188 to $8,980,075,

being a loss from these two fabrics of $15,824,-113 in two years. Within the same period, the duties from spirits fell from $2,646,186 to $1,728,665, a difference of nearly a million dollars. The tariff had been enacted during the existence of the excise on home-distilled spirits; and for the protection of the domestic article, an additional duty was imposed. The excise was repealed, but the duty on foreign spirits was continued; so that the duty on these last exceeded the entire value of the domestic product. This circumstance tended to decrease the consumption of foreign spirits, and with it, of course, the amount of revenue also.

The shrinkage, which occurred in 1819 in the returns from imports and tonnage, showed a progressive decrease throughout 1820, and reached its lowest point of depression in the first quarter of 1821. In this latter year the customs yielded but $13,004,447.15. It was plain that the public interests now demanded either that the revenue be augmented, or expenditures diminished. As to the former alternative, it was conceived that the tariff might be easily made more productive, were its rates

reduced ; but any such proposed reduction met, of course, with a violent opposition from the protected interests. On the other hand, a system of internal duties was claimed to be generally odious and oppressive in its collection, and was regarded also as falling principally on the agricultural portion of the country, the great moneyed capitalists escaping its operation. Since, then, nothing but a retrenchment of the public expenditure was able to save the people from internal taxation, Congress came at last to decide upon this latter course. Accordingly, we find that the expenditures of the Government — those on account of the public debt excluded — were now reduced from the sum of $13,134,530.57 in 1820 (itself a great reduction on previous years) to $10,723,479.07 in 1821, and to $9,827,643.51 in 1822. In this way the expenses of the Government were reduced, and made equal to its income. During this year it was that a revival took place in the foreign commerce of the country, which, from its favorable action upon the revenue from imports and tonnage, relieved the Treasury of all its embarrassment, yielding besides an income sufficient for all expendi-

tures, and equal also to the full sinking-fund requisition of $10,000,000. It was seriously thought at one time to reduce this amount to $8,000,000. Happily, not only was this contemplated reduction not necessary, but, through the increasing efficiency of the national resources, the previous deficiency in the application of the entire fund was more than made good by the subsequent excess of annual payments on the principal of the debt, made from the beginning of 1826 to 1828.

On the first days of the several years, 1825, 1826, 1827, and 1828, the great war debt became payable at the will of the Government. The amount of it yet unredeemed was $63,786,-137.74. As this sum largely exceeded the highest possible capacity of the sinking-fund, during those four years, a series of efforts was begun as early as 1822 to refund a portion of this debt, with a view to its more equal distribution over a greater number of the years succeeding. For such a plan, the time seemed very propitious; as the current value of the five-per-cent stock issued recently by the Government was higher than that of the seven-per-cent stock redeemable in 1825. Accordingly,

offers were made, under an Act of April 20, 1822, to exchange $26,000,000 of the stocks redeemable in 1825, 1826, 1827, and 1828, into a five-per-cent stock redeemable in this wise; viz., (1) as to the six-per-cent stock exchanged, one-third on Jan. 1, 1831, and one-third on the same date in the years 1832 and 1833; and (2) as to the seven-per-cent stock exchanged, on Jan. 1, 1834. Not more, however, than $56,-704.77 were exchanged. And the failure of the measure was attributed to a sudden rise, during the year, in the rate of interest, caused by a demand for capital to be used in commercial enterprises. As this state of affairs continued during the year following, it prevented any similar attempt being then made.

The balance in the Treasury on the 1st of January, 1824, reached the sum of $9,463,922.-81. According to the existing terms of the public debt, no portion of this balance, nor of any surplus accruing during the year, could be applied to it before the 1st of January, 1825. The principal of a large amount of the debt, and that part, too, of it bearing the highest rate of interest, becoming payable at this latter date, it would have been inexpedi-

ent to apply the resources at the disposal of the Government meanwhile to any other object than the payment of this debt. In order, therefore, to obviate the general inconvenience involved in the withdrawal of so large a sum from circulation, only to lie idle in the vaults of the banks, authority was given by an Act of Jan. 22, 1824, to purchase at a premium the outstanding seven-per-cent stock, which amounted to $8,610,000. These purchases, if made prior to the 1st of April, were to be at the rate of two dollars for every $100, in addition to the interest due at that date; if made between the 1st of April and the 1st of July, they were at the rate of seventy-five cents on every $100, and interest to the latter date; and if between the 1st of July and the 1st of October, they were at par with interest to Oct. 1. After the 1st of October the purchases were at par, and accrued interest to the date of purchase. It being very well known in advance that the Government would be in possession of ample means to redeem the stock at its maturity, this arrangement met with sufficient acceptance to accomplish its purpose.

Other measures besides the above mentioned were passed in reference to the public debt. Under the Acts of the 24th and the 26th of May, 1824, there were negotiated two loans of $5,000,000 each with the United States Bank at four and a half per cent, and redeemable in 1832 and 1834 respectively. One of them had for its object to discharge the awards stipulated under the Florida treaty of the 22d of February, 1819; while the other was designed to pay such amount of the six-per-cent stock of 1812 as might still remain unredeemed, after all the means at the disposal of the commissioners of the sinking-fund during the year 1825 had been put into requisition. As to these two loans, it is proper here to observe, that besides the proposal of the United-States Bank, which was the one accepted, various other offers had been received for somewhat more than one-half of one of the loans, and at rates varying between par and four and a half per-cent premium, thus forming an average premium of .97⅓ on the whole amount offered. Notwithstanding, the proposal of the bank for the entire amount of both loans at par was considered as more advan-

tageous to the Government, especially as it was proprietor of one-fifth of its capital. Still another Act, passed on the 26th of May, 1824, authorized an exchange of $15,000,000 of the six-per-cents of 1813 into four-and-a-half-per-cent stock, redeemable, one-half in 1833, and the remainder in 1834. Not more, however, than $3,308,307.45 were exchanged.

On the 1st of January, 1826, there were redeemable of the six-per-cent stock of 1813, $19,000,000. The ordinary revenues of the year were not adequate to the redemption of more than $7,000,000 of this sum, thus leaving an excess of $12,000,000 unprovided for. In order, therefore, to constitute a fund which, in conjunction with the annual surplus means of the Treasury, would pay off the nineteen millions redeemable in 1826, an Act of March 3, 1825, authorized an exchange of new stock bearing four and a half per cent interest, and amounting to $12,000,000, for a like amount of the six-per-cent stock issued in 1813. The redemption of this stock was thrown in equal portions upon the years 1829 and 1830, — no part of the public debt being payable in these two years except the seven millions due to

the bank, and the three-per-cents; but neither of these two last was it advisable to redeem, so long as stocks were outstanding bearing a higher rate of interest. In the event of failure to accomplish the object of the Act by the proposed means of an exchange of stock, a loan was authorized, as an alternative, which, however, was not to differ from the preceding, either as to amount, or rate of interest, or the time of its redemption. A loan was thought the more likely to succeed, even though failure should come to the exchange for the reason that a loan would invite competition among all the moneyed capitalists, and also from the Bank of the United States; whereas, an exchange of stocks might easily have the effect of confining the demand for the new stock to the holders of the old, who, besides constituting but a small portion of the capitalists, were the very persons interested in preventing the accomplishment of the exchange. The exchange, at all events, was first attempted, and was effective to the amount of only $1,585,138.88. Loan proposals were next issued for what remained of the required sum, but no offers were received. The Govern-

ment, it seems, had now to contend with a rival suitor for the capital of the country; for, when lenders came to consider the short periods of redemption held out by the Act, they found that the rate of interest was too much below that which capital might gain if it were invested in commercial and manufacturing undertakings.

This attempt was the last that was made to alter the terms of the public debt, so as to change the period of its redeemability. The time was no longer propitious. Both at home and abroad, serious embarrassments had arisen in the money-market, and these were more likely to increase than diminish. Neither by loan, nor by exchange, was it possible to effect now a saving of more than one-half of one per cent; and this could prove, under the circumstances, of but little advantage to the Government. From this time forward the surplus means of the Treasury, as it accumulated, was applied quarterly in partial payments towards the redemption of the six-per-cent stocks; and in order to determine the persons whose stock was to be paid at the end of each ensuing quarter, lots were drawn at the Treasury In

pursuance of this method, the debt was the more speedily reimbursed, the expenditure on account of interest became lessened, and payments were more equally distributed over different years; while it also suited the convenience of the Government, and effectually guarded against all possible accumulation of money in the Treasury.

The term of the final extinguishment of the public debt was now rapidly approaching. Although the credit of this notable result is due primarily to a faithful adherence to the provisions of the Sinking-Fund Act of March 3, 1817, yet it will not be without interest to know that the revenue that sustained its successful action, was drawn almost entirely from the foreign commerce of the country. Up to the present time, many changes had been made in the Tariff Act of April 27, 1816; and of these the most important was the one inaugurated by the Act of May 22, 1824, and which had for its object to perfect what was known as the "American System" for the protection of domestic manufactures. An increase of duties was effected by this tariff equal to about $7\frac{57}{100}$ per cent upon the entire amount of importa-

tions. But notwithstanding this large augmentation of duties on imports, many of which were prohibitory in their effect, the general aggregate of the foreign trade itself was not diminished, and the revenue therefrom continued even to increase. Nor did this increase suffer any interruption from several subsequent Acts (all passed prior to 1835), which gradually reduced, and finally abolished, the duties upon sundry articles, including among them such important commodities as coffee, cocoa, molasses, salt, and tea.

Under such favorable circumstances, larger and ever larger amounts were able to be applied to the redemption of the public debt. The disbursements exceeded sixteen millions in 1831, and eighteen millions in 1832. While these and previous important payments on account of the public debt, and such others as had to meet the current expenses of the Government, were being made, the large additional sum of fifteen millions, or perhaps twenty millions besides, went to objects of internal improvements, such as roads, canals, fortifications and arsenals, docks, public buildings, etc.

The public creditors, in their unbounded

reliance upon the faith and resources of the nation, saw with regret the approach of the time when their claims would be paid, and they at least would have rejoiced in its postponement. But, with the people at large, the extinction of the debt had become a favorite and ruling object; and, in obedience to their wide-spread interest in the matter, Congress hastened the event by every means in its power, especially by a prudent economy in the public expenditures. Before the close of the year 1834, ample funds had been deposited with the Bank of the United States, as Commissioner of loans, to discharge all the public funded debt then outstanding.

In 1835, the President, in his annual message to Congress, was able to announce that "all the remains of the public debt have been redeemed, or money has been placed in deposit for this purpose whenever the creditors choose to receive it. All the other pecuniary engagements of the Government have been honorably and promptly fulfilled; and there will be a balance in the Treasury, at the close of the present year, of about nineteen millions of dollars."

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